

interest payments, etc. When all of these have been either computed or estimated as nearly as possible, it is the intention to incorporate them periodically with the official published foreign trade statistics for merchandise and gold into an international balance sheet of the United States. The subject is believed to be of particular interest at the present time as showing the amounts being added to our already enormous balance due from abroad and as revealing the underlying conditions which banks and business men are facing in financing our foreign trade.

**FORMS OF COMMERCIAL LETTERS OF CREDIT.<sup>1</sup>**

A preceding article has set forth the legal aspects of the commercial letter of credit and also the practice of a number of American banks.<sup>2</sup> In connection with this survey, the credit letters used by American banks were gathered and the following is a study of the features of difference and similarity among these letters, with a view of deriving principles which will be of advantage in standardizing the forms. This study will include a presentation of the various expressions found in 64 import and 56 export letters of credit and then a comparative analysis.

In its general form, the commercial letter of credit possesses all the characteristics of the ordinary business letter. The name of the beneficiary to whom the letter is directed appears in the usual place of the addressee. The date, name, and location of the issuing bank are all written above, and the signature of one or more officers appears below. While letters of credit vary extensively, the content depends upon whether the letter covers an import or export transaction, and hence it is necessary to study these documents on this basis of division. They all, however, contain an expressed or implied agreement on the part of a bank to honor the drafts of the seller of the goods and also a statement of the conditions which he must observe.

**A. IMPORT LETTERS OF CREDIT.**

In most import credits, the undertaking of the bank is expressed first, in an authorization to the beneficiary to draw drafts to a certain amount and, second, in a general promise to holders of such bills that they will be duly honored. The credit also describes the required documents and states the time within

which the conditions must be fulfilled. An analysis of the import letter of credit must, therefore, cover the following phases:

- (1) Heading.
- (2) Address to the beneficiary.
- (3) Promise to honor drafts.
- (4) Description of documents.
- (5) Date of expiration.
- (6) Supplementary expressions.
- (7) Reverse side of credit.

(1) HEADING.

(1) "Credit".....	5
(2) "Letter of credit".....	34
(3) "Commercial letter of credit".....	17
(4) "Commercial credit".....	1

Most import forms bear a caption which states definitely that the document is a "letter of credit" or in full a "commercial letter of credit" to distinguish it beyond doubt from the traveler's letter. Few letters contain the words "irrevocable" or "confirmed" or in fact any single word which definitely expresses the particular class of the credit, since it is generally irrevocable (see FEDERAL RESERVE BULLETIN, February, 1921, p. 164, answers to question 1).

(2) ADDRESS TO THE BENEFICIARY.

- (1) "We hereby authorize you to draw on \_\_\_\_\_."
- (2) "We hereby authorize your drafts on \_\_\_\_\_."
- (3) "You are hereby authorized to draw on \_\_\_\_\_."
- (4) "You are hereby authorized to value on \_\_\_\_\_."
- (5) "We hereby authorize you or any parties whom you may direct by written order."
- (6) "We hereby authorize you or your assigns."
- (7) "We hereby authorize you or order."
- (8) "We hereby establish our documentary credit."
- (9) "We hereby open a credit."

As most import letters of credit confer a direct authorization to draw drafts upon a bank, the addresses made to the beneficiaries differ only in minor detail. No. 1 is a definite mandate from the issuing bank; No. 2 is more liberal toward the beneficiary, for his right to draw drafts under partial shipments is given some recognition. The mandate in No. 3 is slightly weakened by not mentioning explicitly the party, whether issuing or paying banker, who has authorized the drawing of the drafts. Many British and a few American credits contain the expression "to value on" (see No. 4), but its legal and economic connotation is not as definite as the word "draw," which needs little explanation. A few banks frame their address so that the beneficiary may freely assign the credit to anyone whom he may choose (see Nos. 5, 6, 7; also FEDERAL RESERVE BULLETIN, February, 1921, p. 169, answers to question 23). In letters used by a few western banks, the address to the beneficiary assumes

<sup>1</sup> Prepared under the direction of G. W. Edwards, Division of Analysis and Research.  
<sup>2</sup> FEDERAL RESERVE BULLETIN, February, 1921, pp. 158-171.

forms exemplified in Nos. 8 and 9. Such statements of establishing or opening credits are generally found in export letters, but are ill-suited to the import credit which should give the addressee an unqualified authority to draw drafts on the bank.

The tenor and amount of the drafts may be described thus: "By your drafts at (30, 60, 90 days, sight) for not exceeding \_\_\_\_\_ dollars United States currency (\$\_\_\_\_\_)." This expression, by implication at least, permits the drawing of the sum not only in one but also in several drafts if the beneficiary is so disposed. This is of decided advantage to him, for he is then enabled to draw several drafts of smaller amounts whenever it becomes difficult to negotiate a large single bill, and also his right to effect partial shipments is recognized. As the addressee must know the name of the importer for whom the bank is acting, it is customary to state that the drafts are authorized "for the account of \_\_\_\_\_." This expression may also read "by order of \_\_\_\_\_" or "at the instance of \_\_\_\_\_." Since bills are not always drawn to the full amount of the invoice but at times only to a certain percentage of the value of the merchandise, the letter of credit contains an expression which then reads "for \_\_\_\_\_ % invoice cost of \_\_\_\_\_." (FEDERAL RESERVE BULLETIN, February, 1921, p. 170, answers to question 28.)

#### (3) PROMISE TO HONOR DRAFTS.

(1) "We hereby agree with the drawers, indorsers, and bona fide holders of drafts drawn under and in compliance with the terms of this credit that the same shall be duly honored upon presentation at the office of \_\_\_\_\_ Bank, New York."

(2) "We hereby agree that such bills as you may draw by virtue of this credit shall meet with due honor upon the presentation at the office of \_\_\_\_\_ Bank."

(3) "We hereby engage that drafts in compliance with the terms of the credit will be duly honored."

(4) "We hereby request our correspondents and others, to negotiate drafts under this credit, and we engage that all such drafts will meet with due honor upon presentation upon us."

(5) "\_\_\_\_\_ Bank engages that bills so drawn, shall be accepted on presentation and paid at maturity."

As one purpose of the letter of credit is to aid the exporter in negotiating his drafts, the issuing banker addresses to all holders of these bills a general promise that they will be honored on presentation (FEDERAL RESERVE BULLETIN, February, 1921, p. 166, answers to question 9). This engagement on the part of the issuer appears as the closing statement of the credit and assumes one of the expressions presented above. These forms convey essentially the same thought and differ only as to the number of the addressees. No. 1 includes "drawers, indorsers, and holders;" 2 limits its

promise to "drawers" only; while 3 and 4 omit all reference to parties. In 4 the bank requests only its "correspondents to negotiate drafts" of the beneficiary and assures them that they will be reimbursed. No. 5 is more specific than the others in defining the obligation of the bank by stating that it will both accept and pay the drafts.

#### (4) DESCRIPTION OF DOCUMENTS.

The survey thus far indicates that the letter of credit is an undertaking in which a bank authorizes an exporter to draw drafts and promises to pay them at maturity. On the other hand, the exporter, as the second party, agrees to draw his drafts only in accordance with certain conditions which are specified with greater detail in documentary than in clean credits. In formulating such letters of credit, the bank must seek to eliminate responsibility for the merchandise and participation in the commercial risk. The bank can not be expected to guarantee facts relating to time of shipment and quality of goods, but can only be held accountable for the regularity of the documents evidencing the fulfillment of the terms prescribed in the credit. Letters of credit enumerate the usual shipping documents such as bills of lading, policies or certificates of insurance, commercial and consular invoices. As the bill of lading must be negotiable in form, it is filled out to the order either of the bank or of the shipper and indorsed by him in blank. Sometimes "on board" bills of lading are demanded and then the credit includes expressions which read "that payment under this credit will only be made provided the goods are actually on board, or loading on the vessel named in the bills of lading." Insurance in most cases is made payable to the bank and the credit ordinarily stipulates whether the insurance is to be effected by importer or exporter. Policies, of course, must be issued by reputable companies and be sufficient in amount to cover all losses. Commercial invoices are always demanded and at times must be in triplicate. All these documents should be in strict conformity with the terms of the credit and satisfactory to the issuing bank. A few American banks have adopted a British practice which requests negotiators to certify that the conditions have been observed and in one instance this guaranty reads as follows: "Your negotiation of any draft or drafts under this letter of credit will be considered a guaranty to \_\_\_\_\_ Bank that the terms and conditions expressed therein have been fulfilled." A requirement of this nature charges

the negotiator with a very definite responsibility and may render it difficult for the beneficiary to secure a buyer for the drafts. One far-eastern bank exacts a guaranty not from the negotiator but from the beneficiary himself who is called upon to sign the following statement:

We beg to hand you the undermentioned drafts with shipping documents attached, for negotiation. We herewith declare that these drafts and documents have been made out in strict conformity with terms concerned and agree to hold ourselves responsible therefore.

The disposition of the various documents required under a letter of credit is indicated by the following table:

	Negotiator to send direct to issuer.	To send with drafts.
Bill of lading.....	51	48
Consular invoice.....	47	12
Commercial invoice.....	26	47
Insurance certificate or policy.....	5	6

It is evident from the above that the negotiator forwards directly to the issuer the bill of lading and a consular invoice, while the commercial invoice and remaining documents, including duplicates, are later transmitted with the drafts drawn by the exporter.

(5) DATE OF EXPIRATION.

- (a) Date of credit.
    - 1. "Expiration date."
    - 2. "Available until \_\_\_\_\_."
    - 3. "This credit becomes void if not used on or before \_\_\_\_\_."
  - (b) Date of draft.
    - 1. "Drafts under this commercial letter of credit must be drawn prior to \_\_\_\_\_."
    - 2. "Drafts drawn under this credit must be drawn and negotiated prior to \_\_\_\_\_."
    - 3. "\_\_\_\_\_ if negotiated prior to \_\_\_\_\_."
  - (c) Date of bill of lading.
    - 1. "Bills of lading must be dated on or before \_\_\_\_\_."
  - (d) Date of credit and draft.
    - 1. "This credit expires on \_\_\_\_\_. Your draft must be presented on or before this date."
  - (e) Date of shipment and draft.
    - 1. "The shipments must be completed and drafts drawn on or before \_\_\_\_\_."
    - 2. "Shipments must be completed and the drafts negotiated on or before \_\_\_\_\_."
  - (f) Bill of lading and draft.
    - 1. "Bills of lading must be dated not later than \_\_\_\_\_ and drafts must be drawn not later than \_\_\_\_\_."
- |                                       |    |
|---------------------------------------|----|
| Date of credit.....                   | 9  |
| Date of draft.....                    | 25 |
| Date of draft and bill of lading..... | 4  |
| Date of draft and shipment.....       | 23 |

Type A is not widely used, as there is always doubt whether the credit expires at the office

either of the negotiating or the credit-issuing bank. The exact termination of a credit is fixed by the close of the business, usually at 3 o'clock on week days or 12 on Saturdays. If the expiration date falls on a Sunday or a holiday, it is the practice to consider the credit still available on the next business day. No. B-1 does not fully protect the interest of the issuer, since it is possible for a beneficiary to postdate his drafts. B-2 overcomes this defect by compelling the beneficiary not alone to draw but to present his drafts for negotiation before a fixed date. Type D has the advantage of determining one date for both the expiration of the credit and the presentation of the drafts. E in similar manner joins the date of shipment with the drawing of the drafts, while F binds together the dates of the bills of lading and of the drafts.

(6) SUPPLEMENTARY EXPRESSIONS.

(a) Description of the draft.

- (1) "All drafts drawn under this credit must be marked 'drawn under \_\_\_\_\_ Bank, credit No. \_\_\_\_\_ dated New York \_\_\_\_\_.'"
- (2) "Drafts against this credit may be marked 'payable if desired at maturity at the \_\_\_\_\_ Bank, New York.'"

In order to simplify their records, it is customary for banks to have the beneficiary note upon his draft that it has been drawn under a particular letter of credit. (See No. A-1.) Occasionally a beneficiary finds difficulty in negotiating drafts drawn under a letter of credit issued by an interior American bank. This institution in order to expedite the discounting of its drafts abroad then induces its New York correspondent with an international reputation to permit an inscription similar to No. A-2.

(b) Return of the letter of credit.

"This credit is to be attached to the last bill drawn under it or returned when its currency has expired."

An expression similar to the above appears on many letters of credit, but responses to question 3 (FEDERAL RESERVE BULLETIN, February, 1921, p. 165) indicate that the originals seldom find their way back to the issuers.

(7) REVERSE SIDE.

Space is usually allowed on the reverse side of credit letters for negotiators to indorse the particulars of the drafts which they have purchased. As foreign banks do not make it a practice of marking off the details of bills thus discounted (FEDERAL RESERVE BULLETIN, February, 1921, p. 165, see question 4), one American bank safeguards itself against such omission by inserting the state-

ment on its letter of credit that "the amount must be indorsed hereon and the negotiation of any draft is considered a guaranty that such indorsement has been made." In general the opposite side of the credit may call for the following details: (a) date of payment; (b) name of negotiator; (c) name of town where negotiated; (d) amount in words; (e) amount in figures. To prevent overpayment one bank adds the clause that "the amount drawn against this credit is not to exceed \_\_\_\_\_."

**B. EXPORT LETTERS OF CREDIT.**

Pursuing the same general method of presentation as used above, export letters may be analyzed according to the following characteristics:

- (1) Heading.
- (2) Address to beneficiary.
- (3) Description of documents.
- (4) Date of expiration.
- (5) Supplementay expressions.

As confirmed and unconfirmed credits are quite similar in content, the former will be analyzed in detail and features peculiar to the latter will then be viewed.

(1) **HEADING.**

Terms used in heading.	Con- firmed.	Uncon- firmed.
"Credit".....	14	10
"Letter of credit".....	2	3
"Advice of credit".....	4	5

From the above table it appears that banks have no settled usage as to the terms "irrevocable" or "revocable" and "confirmed" or "unconfirmed," and consequently a bank is oftentimes at a loss how to interpret the cable instructions of foreign correspondents requesting the opening of credits. To avoid this confusion, it may be advisable to adopt the words "revocable" and "irrevocable" when referring to import credits and the terms "unconfirmed" and "confirmed" in mentioning export credits.

The above table indicates that the term "letter" is seldom applied to export credits, but instead the word "credit" or the phrase "advice of credit" is generally applied. This is most likely due to the thought that banks, apprising beneficiaries of the opening of export credits, are not assuming actual, primary obligations of their own, but rather secondary responsibilities contingent only upon the default of their correspondents abroad. The security of this belief depends entirely upon

the phraseology of the notice which the bank addresses to the beneficiary of the export credit.

(2) **NOTICE TO THE BENEFICIARY.**

(a) Actual authorization to draw upon notifying bank.

- (1) "We hereby authorize you to draw upon us."
- (2) "You are hereby authorized to draw on us."

(b) Potential authorization to draw upon notifying bank.

- (1) "We beg to inform you that we have been authorized by \_\_\_\_\_ to negotiate your drafts on us."
- (2) "We are instructed by \_\_\_\_\_ to pay you to the extent of \_\_\_\_\_."
- (3) "We are informed by \_\_\_\_\_ that you will draw upon us at \_\_\_\_\_."

(c) Advice of an actual credit opened by notifying bank.

- (1) "We herewith open a confirmed credit in your favor."
- (2) "We have opened a confirmed and irrevocable credit."
- (3) "Please note that a confirmed credit has been opened with us in your favor, for account of \_\_\_\_\_."
- (4) "We are informed by \_\_\_\_\_ that they have established a credit with us in your favor."
- (5) "Please note that under instructions from our principals we hereby open a confirmed credit in favor of \_\_\_\_\_."
- (6) "We hereby confirm the following credit opened at the request of \_\_\_\_\_."

(d) Advice of potential credit opened by notifying bank.

- (1) "We are pleased to inform you that we have been requested to open a credit in your favor."
- (2) "We beg to intimate that we have issued a commercial letter of credit."

(e) Advice of actual credit opened by issuing bank.

- (1) "We are to-day in receipt of (cable) advices from \_\_\_\_\_ that they have issued an irrevocable credit."
- (2) "We advise you that said bank has opened a confirmed credit."
- (3) "\_\_\_\_\_ have requested us to advise you that they have opened a credit."

*Types of notifications in American letters of credit.*

	Con- firmed.	Uncon- firmed.
a. Actual authorization.....	3	1
b. Potential authorization.....	3	9
c. Actual credit opened by notifier.....	3	9
d. Potential credit opened by notifier.....	3	6
e. Actual credit opened by issuer.....	3	6

A. The direct authorization as seen in forms 1 and 2 constitutes a definite mandate from the bank to the beneficiary. No. 1 is the most forceful expression of a bank's obligation under an export letter of credit, while No. 2 is some-

what weaker in that it leaves the beneficiary in doubt whether the authorization to draw emanates from the issuing or the notifying bank. These forms are well adapted to the import credit letter which is the direct, primary obligation of the issuer but they fail to express the true position of a bank which is merely acting as the representative of its foreign correspondent. A few banks issue the same form for both import and export credits, and in fact one bank uses a single document for all credits by merely adding the expression "unless previously canceled" to its revocable and unconfirmed letters.

B. In order to retain the thought of direct authorization and at the same time not to bind the notifying bank too closely, export letters frequently contain the second type, which is merely a potential authorization to the beneficiary. He is notified that the bank has been instructed to pay him or informed that he will draw, but in no case does the bank admit that it will heed the instruction or honor the drafts when drawn. These expressions extend to the beneficiary only the possibility of payment, and hence may be described not as actual but only potential authorizations. In fact, No. 3 follows the language of the document known as the "authority to purchase" rather than the letter of credit.

C. Group C conveys the true function of a notifying bank which is expected to add its confirmation to a credit already opened by a foreign bank. As a matter of fact, there is little to choose between actual authorizations and these expressions, since they all indicate in no uncertain terms that the credit is domiciled with the notifying bank. The recipient is fully assured that he has an undisputed claim upon the bank which has advised him of the credit. It is, therefore, well adapted to a confirmed credit but ill suited as an unconfirmed form.

D. Form D is not a direct notice of credit opened by the notifying bank and in fact is nothing more than a mere advice of a potential credit. The bank issuing D-1 would probably contend that it has assumed no undertaking, since it has not agreed to accede to the request of its correspondent for the opening of a credit. In D-2 the bank, using the guarded term "intimate," rather cautiously imparts to the beneficiary the knowledge of a credit opened in his behalf.

E. Type E includes advices of actual credits opened by another bank. The notifying bank simply transmits certain information to the beneficiary and undertakes no engagement

whatsoever. Even the insertion of the word "confirmed" fails to transform this statement into a credit domiciled with the notifying bank. These forms are therefore not adapted to describe the obligations of the informing bank under a confirmed letter of credit. A certain bank draws a nice distinction between types C and E by describing the former as a "confirmed letter of credit" and the latter as an "advice of confirmed credit established."

In conclusion, some form of type C, an advice of an actual credit opened by the notifying bank, best expresses the actual principle of a confirmed export letter of credit, while type E, an advice of an actual credit opened by another bank, conforms to the true theory of an unconfirmed credit.

(3) DOCUMENTS.

Export letters of credit call for delivery of the usual commercial set of documents which have been described above in the analysis of import credits. These must be complete, which may mean duplicate or triplicate sets. It is generally added that documents must be of a character satisfactory or acceptable to the bank effecting payment. Such phrases offer wide latitude to banks in rejecting documents not in conformity with the conditions of the credits.

(4) EXPIRATION DATE.

(a) Date of credit:

1. "This credit will remain in force until ——."
2. "Available until ——."
3. "Expires."
4. "Expiring in New York."

(b) Date of draft:

1. "Drafts drawn under this credit must be presented not later than ——."

(c) Date of credit and draft:

1. "This credit expires on ——. Your draft must be presented on or before that date."
2. "Available by drafts on us, at ——, which must be presented on or before the expiration date of this credit."

(d) Date of shipment and draft:

1. "All shipments must be completed, and drafts with full sets of documents must be presented for payment not later than ——."
2. "(Drafts) should be presented to our foreign department on or before ——, the date this credit expires."

	Con- firmed.	Uncon- firmed.
(a) Date of credit .....	14	22
(b) Date of draft .....	6	6
(c) Date of credit and draft .....	3	0
(d) Date of draft and shipment .....	1	1

The objection raised above, that type A does not define the exact place of the expiration of the credit is partly overcome by one bank which describes the credit as "expiring in New York" on a certain day and this implies that both drafts and documents must be presented at the counter of the negotiating bank before the fixed date (see a-4). Type B is seldom used, but is often combined with A to form type C which fixes one date for both the expiration of the credit and the presentation of the drafts to the negotiating bank. Some banks insist that shipments be completed and drafts drawn before a certain date matures. Where a credit reads "December shipment" the negotiating bank generally allows presentation of documents until January 5.

(5) SUPPLEMENTARY EXPRESSIONS.

The export credit is usually concluded by an explanation of the notifying bank's relation to the issuing bank and the beneficiary. The statement is made that, as the advising bank is merely acting as representative of its foreign correspondent, it must therefore insist upon strict conformity with the terms of the credit. If the conditions are unsatisfactory to the beneficiary, he is told to communicate before making shipment, either with the bank notifying him of the credit or with the party importing the goods, in order to secure the necessary modifications. A typical instruction reads thus:

As our foreign correspondents are inclined to be extremely technical in connection with payments against shipping documents, we must insist upon the conditions stated herein being complied with to the letter. If the terms of this credit are incorrect or unsatisfactory, please communicate directly with your principals abroad and ask them to have our correspondents send us amended instructions.

It will be observed that several features common to import letters are lacking in export credits. Banks do not indorse particulars of negotiated drafts on the reverse side, nor do they request the beneficiary to return the credit. These practices are not essential in the case of export credits, since they are usually payable only at the bank establishing them (FEDERAL RESERVE BULLETIN, February, 1921, p. 165, answers to questions 3 and 4). It was observed above that most import credits contain a concluding declaration in which the issuing bank affirms to all holders of the drafts that they will be duly honored. Such a statement is rarely found in the export credit and, in fact, is unnecessary, as the letter serves merely to inform the beneficiary of the opening of the credit and not to aid him in the selling of his drafts.

(6) EXPRESSIONS INDICATING UNCONFIRMED CREDITS.

1. In advising you that this credit has been opened we are acting as the representatives of our foreign correspondents and do not assume any responsibility for its continuance.
2. Please note that this is an unconfirmed credit and is consequently subject to modification or cancellation.
3. As this is an unconfirmed credit, it is subject to cancellation at any time, with or without notice to you.
4. We have no authority from our clients to confirm this credit or to guarantee the acceptance (payment of drafts drawn against it). The credit is therefore subject to cancellation without notice.
5. Kindly note that this is not a confirmed credit, and is consequently revocable at any time, either by the parties granting the credit, or by ourselves under certain conditions.
6. In the absence of any statement to the contrary, \_\_\_\_\_ assumes no obligation whatsoever, even if all the conditions of the credit have been complied with.

An unconfirmed credit usually bears either a caption or a statement in the body of the letter using the terms "unconfirmed" or "revocable." Some banks define their position under an unconfirmed credit by stating that they are acting as agents of their foreign correspondents and in extending the credit have incurred no obligation to the beneficiary (see No. 1). It is customary also to express the right to nullify the credit (see No. 2). Some banks transform their confirmed credits into unconfirmed forms simply by adding the statement that the credit expires on a certain date "unless previously cancelled." By inference the beneficiary is entitled to notice of such cancellation, but many banks inform him that the right of cancellation may be exercised either "with or without notice" (see Nos. 3 and 4).

State Banks and Trust Companies Admitted.

The following list shows the State banks and trust companies which have been admitted to membership in the Federal Reserve System during the month of March, 1921.

One thousand five hundred and forty-one State institutions are now members of the system, having a total capital of \$548,000,940, total surplus of \$526,235,642, and total resources of \$10,201,523,977.

	Capital.	Surplus.	Total resources.
<i>District No. 2.</i>			
The Bank of Depew, Depew, N. Y.	\$50,000	\$15,000	\$650,499
The Liberty Bank of New York, New York, N. Y. ....	5,000,000	5,000,000	119,544,027
<i>District No. 4.</i>			
The Reliance Trust Co., Cleveland, Ohio. ....	200,000	50,000	250,000

interest payments, etc. When all of these have been either computed or estimated as nearly as possible, it is the intention to incorporate them periodically with the official published foreign trade statistics for merchandise and gold into an international balance sheet of the United States. The subject is believed to be of particular interest at the present time as showing the amounts being added to our already enormous balance due from abroad and as revealing the underlying conditions which banks and business men are facing in financing our foreign trade.

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In its general form, the commercial letter of credit possesses all the characteristics of the ordinary business letter. The name of the beneficiary to whom the letter is directed appears in the usual place of the addressee. The date, name, and location of the issuing bank are all written above, and the signature of one or more officers appears below. While letters of credit vary extensively, the content depends upon whether the letter covers an import or export transaction, and hence it is necessary to study these documents on this basis of division. They all, however, contain an expressed or implied agreement on the part of a bank to honor the drafts of the seller of the goods and also a statement of the conditions which he must observe.

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- (5) Date of expiration.
- (6) Supplementary expressions.
- (7) Reverse side of credit.

(1) HEADING.

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Most import forms bear a caption which states definitely that the document is a "letter of credit" or in full a "commercial letter of credit" to distinguish it beyond doubt from the traveler's letter. Few letters contain the words "irrevocable" or "confirmed" or in fact any single word which definitely expresses the particular class of the credit, since it is generally irrevocable (see FEDERAL RESERVE BULLETIN, February, 1921, p. 164, answers to question 1).

(2) ADDRESS TO THE BENEFICIARY.

- (1) "We hereby authorize you to draw on \_\_\_\_\_."
- (2) "We hereby authorize your drafts on \_\_\_\_\_."
- (3) "You are hereby authorized to draw on \_\_\_\_\_."
- (4) "You are hereby authorized to value on \_\_\_\_\_."
- (5) "We hereby authorize you or any parties whom you may direct by written order."
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<sup>2</sup> FEDERAL RESERVE BULLETIN, February, 1921, pp. 158-171.

forms exemplified in Nos. 8 and 9. Such statements of establishing or opening credits are generally found in export letters, but are ill-suited to the import credit which should give the addressee an unqualified authority to draw drafts on the bank.

The tenor and amount of the drafts may be described thus: "By your drafts at (30, 60, 90 days, sight) for not exceeding \_\_\_\_\_ dollars United States currency (\$\_\_\_\_\_)." This expression, by implication at least, permits the drawing of the sum not only in one but also in several drafts if the beneficiary is so disposed. This is of decided advantage to him, for he is then enabled to draw several drafts of smaller amounts whenever it becomes difficult to negotiate a large single bill, and also his right to effect partial shipments is recognized. As the addressee must know the name of the importer for whom the bank is acting, it is customary to state that the drafts are authorized "for the account of \_\_\_\_\_." This expression may also read "by order of \_\_\_\_\_" or "at the instance of \_\_\_\_\_." Since bills are not always drawn to the full amount of the invoice but at times only to a certain percentage of the value of the merchandise, the letter of credit contains an expression which then reads "for \_\_\_\_\_ % invoice cost of \_\_\_\_\_." (FEDERAL RESERVE BULLETIN, February, 1921, p. 170, answers to question 28.)

#### (3) PROMISE TO HONOR DRAFTS.

(1) "We hereby agree with the drawers, indorsers, and bona fide holders of drafts drawn under and in compliance with the terms of this credit that the same shall be duly honored upon presentation at the office of \_\_\_\_\_ Bank, New York."

(2) "We hereby agree that such bills as you may draw by virtue of this credit shall meet with due honor upon the presentation at the office of \_\_\_\_\_ Bank."

(3) "We hereby engage that drafts in compliance with the terms of the credit will be duly honored."

(4) "We hereby request our correspondents and others, to negotiate drafts under this credit, and we engage that all such drafts will meet with due honor upon presentation upon us."

(5) "\_\_\_\_\_ Bank engages that bills so drawn, shall be accepted on presentation and paid at maturity."

As one purpose of the letter of credit is to aid the exporter in negotiating his drafts, the issuing banker addresses to all holders of these bills a general promise that they will be honored on presentation (FEDERAL RESERVE BULLETIN, February, 1921, p. 166, answers to question 9). This engagement on the part of the issuer appears as the closing statement of the credit and assumes one of the expressions presented above. These forms convey essentially the same thought and differ only as to the number of the addressees. No. 1 includes "drawers, indorsers, and holders;" 2 limits its

promise to "drawers" only; while 3 and 4 omit all reference to parties. In 4 the bank requests only its "correspondents to negotiate drafts" of the beneficiary and assures them that they will be reimbursed. No. 5 is more specific than the others in defining the obligation of the bank by stating that it will both accept and pay the drafts.

#### (4) DESCRIPTION OF DOCUMENTS.

The survey thus far indicates that the letter of credit is an undertaking in which a bank authorizes an exporter to draw drafts and promises to pay them at maturity. On the other hand, the exporter, as the second party, agrees to draw his drafts only in accordance with certain conditions which are specified with greater detail in documentary than in clean credits. In formulating such letters of credit, the bank must seek to eliminate responsibility for the merchandise and participation in the commercial risk. The bank can not be expected to guarantee facts relating to time of shipment and quality of goods, but can only be held accountable for the regularity of the documents evidencing the fulfillment of the terms prescribed in the credit. Letters of credit enumerate the usual shipping documents such as bills of lading, policies or certificates of insurance, commercial and consular invoices. As the bill of lading must be negotiable in form, it is filled out to the order either of the bank or of the shipper and indorsed by him in blank. Sometimes "on board" bills of lading are demanded and then the credit includes expressions which read "that payment under this credit will only be made provided the goods are actually on board, or loading on the vessel named in the bills of lading." Insurance in most cases is made payable to the bank and the credit ordinarily stipulates whether the insurance is to be effected by importer or exporter. Policies, of course, must be issued by reputable companies and be sufficient in amount to cover all losses. Commercial invoices are always demanded and at times must be in triplicate. All these documents should be in strict conformity with the terms of the credit and satisfactory to the issuing bank. A few American banks have adopted a British practice which requests negotiators to certify that the conditions have been observed and in one instance this guaranty reads as follows: "Your negotiation of any draft or drafts under this letter of credit will be considered a guaranty to \_\_\_\_\_ Bank that the terms and conditions expressed therein have been fulfilled." A requirement of this nature charges



the negotiator with a very definite responsibility and may render it difficult for the beneficiary to secure a buyer for the drafts. One far-eastern bank exacts a guaranty not from the negotiator but from the beneficiary himself who is called upon to sign the following statement:

We beg to hand you the undermentioned drafts with shipping documents attached, for negotiation. We herewith declare that these drafts and documents have been made out in strict conformity with terms concerned and agree to hold ourselves responsible therefore.

The disposition of the various documents required under a letter of credit is indicated by the following table:

	Negotiator to send direct to issuer.	To send with drafts.
Bill of lading.....	51	48
Consular invoice.....	47	12
Commercial invoice.....	26	47
Insurance certificate or policy.....	5	6

It is evident from the above that the negotiator forwards directly to the issuer the bill of lading and a consular invoice, while the commercial invoice and remaining documents, including duplicates, are later transmitted with the drafts drawn by the exporter.

(5) DATE OF EXPIRATION.

- (a) Date of credit.
    - 1. "Expiration date."
    - 2. "Available until \_\_\_\_\_."
    - 3. "This credit becomes void if not used on or before \_\_\_\_\_."
  - (b) Date of draft.
    - 1. "Drafts under this commercial letter of credit must be drawn prior to \_\_\_\_\_."
    - 2. "Drafts drawn under this credit must be drawn and negotiated prior to \_\_\_\_\_."
    - 3. "\_\_\_\_\_ if negotiated prior to \_\_\_\_\_."
  - (c) Date of bill of lading.
    - 1. "Bills of lading must be dated on or before \_\_\_\_\_."
  - (d) Date of credit and draft.
    - 1. "This credit expires on \_\_\_\_\_. Your draft must be presented on or before this date."
  - (e) Date of shipment and draft.
    - 1. "The shipments must be completed and drafts drawn on or before \_\_\_\_\_."
    - 2. "Shipments must be completed and the drafts negotiated on or before \_\_\_\_\_."
  - (f) Bill of lading and draft.
    - 1. "Bills of lading must be dated not later than \_\_\_\_\_ and drafts must be drawn not later than \_\_\_\_\_."
- |                                       |    |
|---------------------------------------|----|
| Date of credit.....                   | 9  |
| Date of draft.....                    | 25 |
| Date of draft and bill of lading..... | 4  |
| Date of draft and shipment.....       | 23 |

Type A is not widely used, as there is always doubt whether the credit expires at the office

either of the negotiating or the credit-issuing bank. The exact termination of a credit is fixed by the close of the business, usually at 3 o'clock on week days or 12 on Saturdays. If the expiration date falls on a Sunday or a holiday, it is the practice to consider the credit still available on the next business day. No. B-1 does not fully protect the interest of the issuer, since it is possible for a beneficiary to postdate his drafts. B-2 overcomes this defect by compelling the beneficiary not alone to draw but to present his drafts for negotiation before a fixed date. Type D has the advantage of determining one date for both the expiration of the credit and the presentation of the drafts. E in similar manner joins the date of shipment with the drawing of the drafts, while F binds together the dates of the bills of lading and of the drafts.

(6) SUPPLEMENTARY EXPRESSIONS.

(a) Description of the draft.

- (1) "All drafts drawn under this credit must be marked 'drawn under \_\_\_\_\_ Bank, credit No. \_\_\_\_\_ dated New York \_\_\_\_\_.'"
- (2) "Drafts against this credit may be marked 'payable if desired at maturity at the \_\_\_\_\_ Bank, New York.'"

In order to simplify their records, it is customary for banks to have the beneficiary note upon his draft that it has been drawn under a particular letter of credit. (See No. A-1.) Occasionally a beneficiary finds difficulty in negotiating drafts drawn under a letter of credit issued by an interior American bank. This institution in order to expedite the discounting of its drafts abroad then induces its New York correspondent with an international reputation to permit an inscription similar to No. A-2.

(b) Return of the letter of credit.

"This credit is to be attached to the last bill drawn under it or returned when its currency has expired."

An expression similar to the above appears on many letters of credit, but responses to question 3 (FEDERAL RESERVE BULLETIN, February, 1921, p. 165) indicate that the originals seldom find their way back to the issuers.

(7) REVERSE SIDE.

Space is usually allowed on the reverse side of credit letters for negotiators to indorse the particulars of the drafts which they have purchased. As foreign banks do not make it a practice of marking off the details of bills thus discounted (FEDERAL RESERVE BULLETIN, February, 1921, p. 165, see question 4), one American bank safeguards itself against such omission by inserting the state-

ment on its letter of credit that "the amount must be indorsed hereon and the negotiation of any draft is considered a guaranty that such indorsement has been made." In general the opposite side of the credit may call for the following details: (a) date of payment; (b) name of negotiator; (c) name of town where negotiated; (d) amount in words; (e) amount in figures. To prevent overpayment one bank adds the clause that "the amount drawn against this credit is not to exceed \_\_\_\_\_."

**B. EXPORT LETTERS OF CREDIT.**

Pursuing the same general method of presentation as used above, export letters may be analyzed according to the following characteristics:

- (1) Heading.
- (2) Address to beneficiary.
- (3) Description of documents.
- (4) Date of expiration.
- (5) Supplementay expressions.

As confirmed and unconfirmed credits are quite similar in content, the former will be analyzed in detail and features peculiar to the latter will then be viewed.

(1) HEADING.

Terms used in heading.	Con- firmed.	Uncon- firmed.
"Credit".....	14	10
"Letter of credit".....	2	3
"Advice of credit".....	4	5

From the above table it appears that banks have no settled usage as to the terms "irrevocable" or "revocable" and "confirmed" or "unconfirmed," and consequently a bank is oftentimes at a loss how to interpret the cable instructions of foreign correspondents requesting the opening of credits. To avoid this confusion, it may be advisable to adopt the words "revocable" and "irrevocable" when referring to import credits and the terms "unconfirmed" and "confirmed" in mentioning export credits.

The above table indicates that the term "letter" is seldom applied to export credits, but instead the word "credit" or the phrase "advice of credit" is generally applied. This is most likely due to the thought that banks, apprising beneficiaries of the opening of export credits, are not assuming actual, primary obligations of their own, but rather secondary responsibilities contingent only upon the default of their correspondents abroad. The security of this belief depends entirely upon

the phraseology of the notice which the bank addresses to the beneficiary of the export credit.

(2) NOTICE TO THE BENEFICIARY.

(a) Actual authorization to draw upon notifying bank.

- (1) "We hereby authorize you to draw upon us."
- (2) "You are hereby authorized to draw on us."

(b) Potential authorization to draw upon notifying bank.

- (1) "We beg to inform you that we have been authorized by \_\_\_\_\_ to negotiate your drafts on us."
- (2) "We are instructed by \_\_\_\_\_ to pay you to the extent of \_\_\_\_\_."
- (3) "We are informed by \_\_\_\_\_ that you will draw upon us at \_\_\_\_\_."

(c) Advice of an actual credit opened by notifying bank.

- (1) "We herewith open a confirmed credit in your favor."
- (2) "We have opened a confirmed and irrevocable credit."
- (3) "Please note that a confirmed credit has been opened with us in your favor, for account of \_\_\_\_\_."
- (4) "We are informed by \_\_\_\_\_ that they have established a credit with us in your favor."
- (5) "Please note that under instructions from our principals we hereby open a confirmed credit in favor of \_\_\_\_\_."
- (6) "We hereby confirm the following credit opened at the request of \_\_\_\_\_."

(d) Advice of potential credit opened by notifying bank.

- (1) "We are pleased to inform you that we have been requested to open a credit in your favor."
- (2) "We beg to intimate that we have issued a commercial letter of credit."

(e) Advice of actual credit opened by issuing bank.

- (1) "We are to-day in receipt of (cable) advices from \_\_\_\_\_ that they have issued an irrevocable credit."
- (2) "We advise you that said bank has opened a confirmed credit."
- (3) "\_\_\_\_\_ have requested us to advise you that they have opened a credit."

*Types of notifications in American letters of credit.*

	Con- firmed.	Uncon- firmed.
a. Actual authorization.....	3	1
b. Potential authorization.....	3	9
c. Actual credit opened by notifier.....	3	9
d. Potential credit opened by notifier.....	3	6
e. Actual credit opened by issuer.....	3	6

A. The direct authorization as seen in forms 1 and 2 constitutes a definite mandate from the bank to the beneficiary. No. 1 is the most forceful expression of a bank's obligation under an export letter of credit, while No. 2 is some-

what weaker in that it leaves the beneficiary in doubt whether the authorization to draw emanates from the issuing or the notifying bank. These forms are well adapted to the import credit letter which is the direct, primary obligation of the issuer but they fail to express the true position of a bank which is merely acting as the representative of its foreign correspondent. A few banks issue the same form for both import and export credits, and in fact one bank uses a single document for all credits by merely adding the expression "unless previously canceled" to its revocable and unconfirmed letters.

B. In order to retain the thought of direct authorization and at the same time not to bind the notifying bank too closely, export letters frequently contain the second type, which is merely a potential authorization to the beneficiary. He is notified that the bank has been instructed to pay him or informed that he will draw, but in no case does the bank admit that it will heed the instruction or honor the drafts when drawn. These expressions extend to the beneficiary only the possibility of payment, and hence may be described not as actual but only potential authorizations. In fact, No. 3 follows the language of the document known as the "authority to purchase" rather than the letter of credit.

C. Group C conveys the true function of a notifying bank which is expected to add its confirmation to a credit already opened by a foreign bank. As a matter of fact, there is little to choose between actual authorizations and these expressions, since they all indicate in no uncertain terms that the credit is domiciled with the notifying bank. The recipient is fully assured that he has an undisputed claim upon the bank which has advised him of the credit. It is, therefore, well adapted to a confirmed credit but ill suited as an unconfirmed form.

D. Form D is not a direct notice of credit opened by the notifying bank and in fact is nothing more than a mere advice of a potential credit. The bank issuing D-1 would probably contend that it has assumed no undertaking, since it has not agreed to accede to the request of its correspondent for the opening of a credit. In D-2 the bank, using the guarded term "intimate," rather cautiously imparts to the beneficiary the knowledge of a credit opened in his behalf.

E. Type E includes advices of actual credits opened by another bank. The notifying bank simply transmits certain information to the beneficiary and undertakes no engagement

whatsoever. Even the insertion of the word "confirmed" fails to transform this statement into a credit domiciled with the notifying bank. These forms are therefore not adapted to describe the obligations of the informing bank under a confirmed letter of credit. A certain bank draws a nice distinction between types C and E by describing the former as a "confirmed letter of credit" and the latter as an "advice of confirmed credit established."

In conclusion, some form of type C, an advice of an actual credit opened by the notifying bank, best expresses the actual principle of a confirmed export letter of credit, while type E, an advice of an actual credit opened by another bank, conforms to the true theory of an unconfirmed credit.

(3) DOCUMENTS.

Export letters of credit call for delivery of the usual commercial set of documents which have been described above in the analysis of import credits. These must be complete, which may mean duplicate or triplicate sets. It is generally added that documents must be of a character satisfactory or acceptable to the bank effecting payment. Such phrases offer wide latitude to banks in rejecting documents not in conformity with the conditions of the credits.

(4) EXPIRATION DATE.

(a) Date of credit:

1. "This credit will remain in force until ——."
2. "Available until ——."
3. "Expires."
4. "Expiring in New York."

(b) Date of draft:

1. "Drafts drawn under this credit must be presented not later than ——."

(c) Date of credit and draft:

1. "This credit expires on ——. Your draft must be presented on or before that date."
2. "Available by drafts on us, at ——, which must be presented on or before the expiration date of this credit."

(d) Date of shipment and draft:

1. "All shipments must be completed, and drafts with full sets of documents must be presented for payment not later than ——"
2. "(Drafts) should be presented to our foreign department on or before ——, the date this credit expires."

	Con- firmed.	Uncon- firmed.
(a) Date of credit.....	14	22
(b) Date of draft.....	6	6
(c) Date of credit and draft.....	3	0
(d) Date of draft and shipment.....	1	1

The objection raised above, that type A does not define the exact place of the expiration of the credit is partly overcome by one bank which describes the credit as "expiring in New York" on a certain day and this implies that both drafts and documents must be presented at the counter of the negotiating bank before the fixed date (see a-4). Type B is seldom used, but is often combined with A to form type C which fixes one date for both the expiration of the credit and the presentation of the drafts to the negotiating bank. Some banks insist that shipments be completed and drafts drawn before a certain date matures. Where a credit reads "December shipment" the negotiating bank generally allows presentation of documents until January 5.

(5) SUPPLEMENTARY EXPRESSIONS.

The export credit is usually concluded by an explanation of the notifying bank's relation to the issuing bank and the beneficiary. The statement is made that, as the advising bank is merely acting as representative of its foreign correspondent, it must therefore insist upon strict conformity with the terms of the credit. If the conditions are unsatisfactory to the beneficiary, he is told to communicate before making shipment, either with the bank notifying him of the credit or with the party importing the goods, in order to secure the necessary modifications. A typical instruction reads thus:

As our foreign correspondents are inclined to be extremely technical in connection with payments against shipping documents, we must insist upon the conditions stated herein being complied with to the letter. If the terms of this credit are incorrect or unsatisfactory, please communicate directly with your principals abroad and ask them to have our correspondents send us amended instructions.

It will be observed that several features common to import letters are lacking in export credits. Banks do not indorse particulars of negotiated drafts on the reverse side, nor do they request the beneficiary to return the credit. These practices are not essential in the case of export credits, since they are usually payable only at the bank establishing them (FEDERAL RESERVE BULLETIN, February, 1921, p. 165, answers to questions 3 and 4). It was observed above that most import credits contain a concluding declaration in which the issuing bank affirms to all holders of the drafts that they will be duly honored. Such a statement is rarely found in the export credit and, in fact, is unnecessary, as the letter serves merely to inform the beneficiary of the opening of the credit and not to aid him in the selling of his drafts.

(6) EXPRESSIONS INDICATING UNCONFIRMED CREDITS.

1. In advising you that this credit has been opened we are acting as the representatives of our foreign correspondents and do not assume any responsibility for its continuance.
2. Please note that this is an unconfirmed credit and is consequently subject to modification or cancellation.
3. As this is an unconfirmed credit, it is subject to cancellation at any time, with or without notice to you.
4. We have no authority from our clients to confirm this credit or to guarantee the acceptance (payment of drafts drawn against it). The credit is therefore subject to cancellation without notice.
5. Kindly note that this is not a confirmed credit, and is consequently revocable at any time, either by the parties granting the credit, or by ourselves under certain conditions.
6. In the absence of any statement to the contrary, \_\_\_\_\_ assumes no obligation whatsoever, even if all the conditions of the credit have been complied with.

An unconfirmed credit usually bears either a caption or a statement in the body of the letter using the terms "unconfirmed" or "revocable." Some banks define their position under an unconfirmed credit by stating that they are acting as agents of their foreign correspondents and in extending the credit have incurred no obligation to the beneficiary (see No. 1). It is customary also to express the right to nullify the credit (see No. 2). Some banks transform their confirmed credits into unconfirmed forms simply by adding the statement that the credit expires on a certain date "unless previously cancelled." By inference the beneficiary is entitled to notice of such cancellation, but many banks inform him that the right of cancellation may be exercised either "with or without notice" (see Nos. 3 and 4).

State Banks and Trust Companies Admitted.

The following list shows the State banks and trust companies which have been admitted to membership in the Federal Reserve System during the month of March, 1921.

One thousand five hundred and forty-one State institutions are now members of the system, having a total capital of \$548,000,940, total surplus of \$526,235,642, and total resources of \$10,201,523,977.

	Capital.	Surplus.	Total resources.
<i>District No. 2.</i>			
The Bank of Depew, Depew, N. Y.	\$50,000	\$15,000	\$650,499
The Liberty Bank of New York, New York, N. Y. ....	5,000,000	5,000,000	119,544,027
<i>District No. 4.</i>			
The Reliance Trust Co., Cleveland, Ohio. ....	200,000	50,000	250,000