

Unconfirmed sight documentary credit

Parties and how it works

The documentary credit is both a flexible means of payment and an instrument for short-term financing.

The documentary credit is an irrevocable promise of payment by a bank. The bank promises the seller of goods or services to pay a certain amount if it submits compliant documents within the specified period.

The unconfirmed sight documentary credit is one of the most commonly used documentary credit types.

Documentary credits take different forms depending on the desired security and the method by which the payment is made.

Security criteria: unconfirmed

With respect to the beneficiary – i.e. the seller – the buyer's bank is only liable for the payment; the advising bank of the seller accepts no payment liability.

Payment terms: at sight

The payment must be made "at sight", i.e. immediately on presentation of the relevant documents.

Parties

Usually four parties are involved in an unconfirmed sight documentary credit:



Seller/exporter

It has an obligation of performance and as beneficiary of the unconfirmed sight documentary credit; it receives the desired security of payment.



Buyer/importer

It has an obligation to pay and orders the unconfirmed sight documentary credit to obtain the desired security of delivery.



Buyer's bank

It is the opening bank and undertakes to make immediate payment if the documents specified in the documentary credit are correct and complete upon presentation to it.



Seller's bank

As the advising bank, it is not liable for payment. It solely examines that the documents submitted to it comply with the conditions.

How it works

The procedure for an unconfirmed sight documentary credit for exports is set out below. It is divided into two parts – opening of the documentary credit and its utilization.

Opening of the documentary credit

1. Signing of contract

The buyer and seller sign a purchase agreement – for example, for generators that are to be shipped from Switzerland to Japan.

As the means of payment, the parties conclude a documentary credit, whereby the seller's bank is only instructed to advise to the seller but not to confirm it.

2. Instruction for opening

The buyer instructs its bank in Japan to open a documentary credit, and the seller's bank issues a non-binding advice thereof to the seller. In its order, the buyer defines the documents that are required for customs clearance and import.

3. Solvency check

The buyer's bank examines its client's creditworthiness and whether the order is complete.

4. Opening

The bank then opens the documentary credit and transfers it (usually by SWIFT) to the seller's bank – and instructs that a non-bindingly advice thereof be issued to the seller. The buyer receives a confirmation of execution.

5. Examination of the documentary credit

The seller's bank examines the apparent authenticity of the documentary credit, checks whether it is subject to the rules of the International Chamber of Commerce in Paris and is complete and whether it contains ambiguous instructions.

6. Advice

The seller's bank advises the documentary credit to its client, indicating that only the buyer's bank is liable to the seller for the payment.

7. Examination of the documentary credit

The seller examines whether the documentary credit conditions are consistent with the purchase agreement. If not, it must request an amendment by the buyer. It now begins to manufacture the generators.



Utilization of the documentary credit

8. Delivery of goods

The seller ships the generators and compiles and examines the documents required in the documentary credit ...

9. Presentation of documents

... and presents them to its bank.

10. Examination of documents

The bank examines whether the documents fulfill the conditions of the documentary credit – if there are any discrepancies, the seller loses its security of payment – and ...

11. Dispatch of documents

... sends the documents to the buyer's bank and requests payment.

12. Examination of documents

The buyer's bank also examines that the documents comply with the conditions of the documentary credit.

13. Payment

If yes, it credits the requested amount to the seller's bank.

14. Debiting of buyer's account and delivery of documents

The buyer's bank debits the buyer's account with the nominal value of the documentary credit less commissions and expenses.

At the same time, it hands over the documents compliant with the documentary credit to the buyer. The buyer can now organize customs clearance and import of the generators.

15. Credit

As soon as the payment from the buyer's bank is received by the seller's bank, the latter credits the seller's account this amount less any commissions and expenses.



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