

Confirmed 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 confirmed sight documentary credit offers greater payment security than an unconfirmed sight documentary credit.

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

Security criteria: confirmed

Both banks participating in the documentary credit accept payment liability with respect to the seller.

Payment terms: at sight

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

Parties

Usually four parties are involved in the confirmed sight documentary credit:



Seller/exporter

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



Buyer/importer

It has an obligation to pay and orders the confirmed sight documentary credit to obtain secured 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.



Seller's bank

It advises and confirms the sight documentary credit to the seller, i.e. it accepts a payment obligation.

How it works

The procedure for a confirmed 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 pharmaceutical products that are to be delivered from Switzerland to Mexico by airplane.

As the means of payment, the parties conclude a documentary credit that must be confirmed by the seller's bank.

2. Instruction for opening

The buyer instructs its bank in Mexico to open a documentary credit that must be confirmed by the seller's bank. 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 – along with the instruction that the documentary credit be confirmed and advised to the seller. The buyer receives a confirmation of execution.

5. Examination of the documentary credit

The seller's bank examines the creditworthiness of the opening bank and the country risk, the apparent authenticity of the documentary credit, 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. Confirmation and advice

The seller's bank confirms and advises the documentary credit to its client. The seller now knows that both its bank and that of the buyer accept liability 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 amendment by the buyer. It now begins to manufacture the pharmaceutical products.



Utilization of the documentary credit

8. Delivery of goods

The seller ships the pharmaceutical products 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. Credit

... credits the nominal value of the documents to its client less any commissions and expenses. The amount is credited regardless of whether the cover from the buyer's bank has already been received.

12. Dispatch of documents

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

13. Examination of documents

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

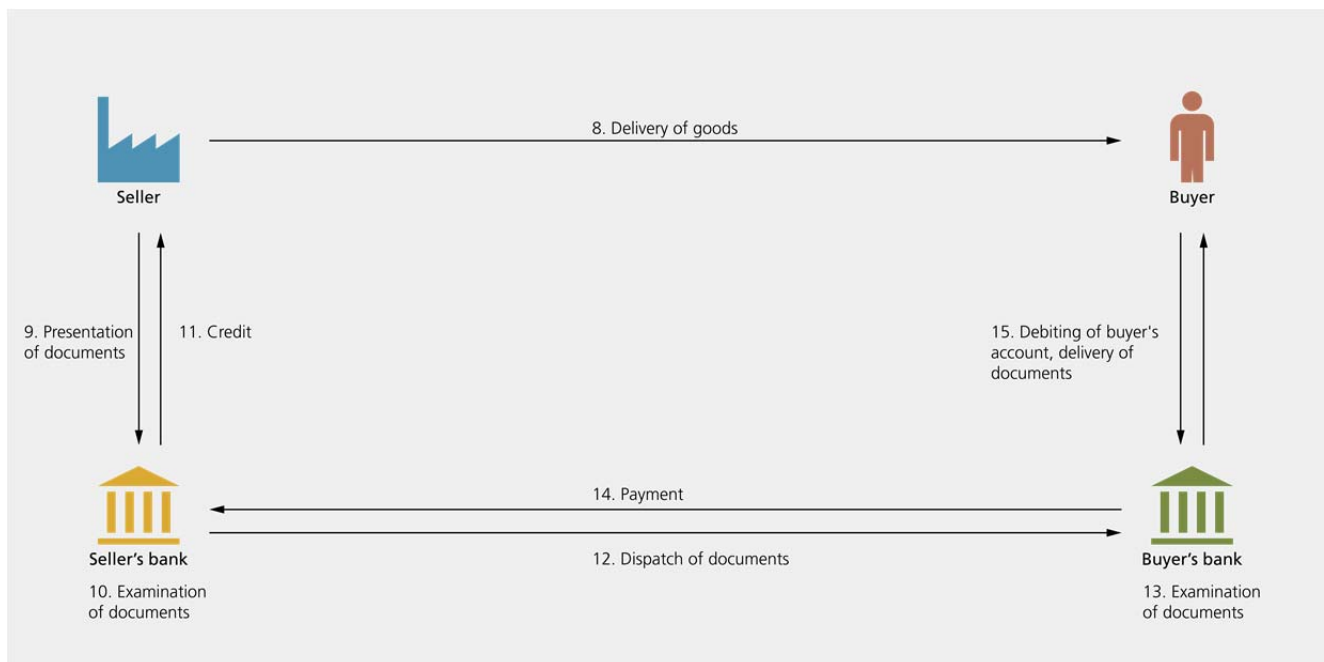
14. Payment

... transfers the amount to the seller's bank ...

15. Debiting of buyer's account, delivery of documents

... and debits the buyer's account by 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 pharmaceutical products.



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