TRADE KNOWLEDGE · ORBIS SHIPPING

UCP 600

The rules behind letter of credit payment: what banks actually check, the deadlines that bind, and why presentations get refused.

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What UCP 600 is, and when it applies

UCP 600 — in full, the Uniform Customs and Practice for Documentary Credits — is the set of rules published by the International Chamber of Commerce governing payment by letter of credit. The current edition has been in force since 1 July 2007, runs to 39 articles, and replaced UCP 500.

First thing to know: UCP 600 does **not** apply automatically. It binds only when the credit itself states that it is subject to the rules. Almost every international commercial letter of credit carries that wording today, but it is still worth reading to be sure.

Three principles that govern everything else

1. Banks deal in documents, not goods

The bank does not inspect the cargo, does not verify that it was really loaded, and does not look at the sales contract between the parties. It compares the documents presented against the conditions stated in the credit — nothing else.

The practical consequence: **deliver perfectly and you still will not be paid if the documents are wrong**.

2. The credit is independent of the sale contract

The reverse holds too: if the documents comply, the bank must pay even while the buyer is disputing the quality of the goods. That dispute is between buyer and seller and is not a reason for the bank to withhold payment.

3. The presentation must comply

The document set must match the terms of the credit, match the provisions of UCP 600 itself, and be internally consistent. The documents need not be identical word for word, but they must never contradict each other.

Deadlines that matter

> **Five banking days** — the period for the bank to examine a presentation, counted from the day of presentation. UCP 500 said only "reasonable time", which caused endless argument; UCP 600 fixed a number.

> **Twenty-one calendar days** — the deadline to present transport documents, counted from the shipment date, unless the credit sets a shorter period. In no case may it fall later than the expiry date of the credit.

> **A single notice of refusal** — to refuse, the bank must send one notice listing every discrepancy it relies on, by the close of the fifth banking day. It cannot refuse piecemeal, raising a fresh defect each time. A bank that fails to follow this procedure loses the right to claim the presentation was discrepant.

How a letter of credit transaction runs

- **Step 1 — Agree.** Buyer and seller settle in the contract that payment will be by letter of credit, and settle which documents will have to be presented.

- **Step 2 — Issue.** The buyer's bank issues the credit on application, undertaking to pay against a complying presentation.
- **Step 3 — Advise.** The credit reaches the seller through an advising bank. If the seller wants more security, it can ask a bank to confirm the credit and add its own independent undertaking to pay.
- **Step 4 — Review before shipping.** The seller reads the credit carefully on receipt. Any condition that cannot be met must be amended before shipment — afterwards is too late.
- **Step 5 — Ship and prepare documents.** The document set has to be prepared alongside the shipment, not after it.
- **Step 6 — Present.** Submit the documents within the deadline, at the place the credit designates.
- **Step 7 — Examination and payment.** The bank examines within five banking days. If the presentation complies, it pays; if not, it sends a notice of refusal following the required procedure.

Quick index to the 39 articles

The table below is only for locating the range of articles covering a topic. The text of each article must be read in the official ICC edition.

Articles	Subject
Articles 1–5	Scope, definitions and interpretation; the credit is independent of the sale contract and banks deal in documents, not goods
Articles 6–13	Place and time for presentation; undertakings of the issuing and confirming banks; advising; amendments; nomination; bank-to-bank reimbursement
Articles 14–16	The standard for examining documents, what makes a presentation complying, and the procedure when a bank refuses — the three articles that matter most to exporters
Articles 17–28	Requirements for each document type: originals and copies, the commercial invoice, transport documents by mode, and insurance documents
Articles 29–33	Extension when a deadline falls on a closed day; tolerances in amount and quantity; partial drawings and shipments; instalments; hours of presentation
Articles 34–37	Limits on bank liability: effectiveness of documents, transmission and translation errors, force majeure, acts of an instructed party
Articles 38–39	Transferable credits and assignment of proceeds

The three discrepancies we see most

1. Goods description on the invoice not matching the credit

The commercial invoice must describe the goods as the credit describes them. This is not the place to improve or condense the wording — a departure from the credit is enough to make the presentation discrepant.

2. Data conflicting between documents

Port names, weights, package counts and consignee details on the bill of lading, invoice, packing list and certificate of origin must be consistent. One figure that differs between the packing list and the invoice is enough for a refusal.

3. Late presentation

Waiting until the vessel has sailed before starting to collect documents is the most common way to fall past the 21-day limit. Schedule document preparation from the moment of booking.

UCP 600 and the Incoterms® rules are not the same thing

The two are mentioned together so often that they get conflated. **Incoterms®** decides who arranges carriage and where risk passes. **UCP 600** decides when the bank pays and against which documents. A single shipment uses both, and neither substitutes for the other.

How ORBIS SHIPPING helps

We build the transport document set to match the terms of the credit from the moment of booking: the right type of bill of lading consigned as required, a shipment date inside the window, and a packing list and certificate of origin whose figures agree with the invoice.

For shipments settled by letter of credit, send us the draft credit to review before you accept it. Correcting a line at that stage costs far less than amending a credit the bank has already issued.