Letter of Credit

4.2.30 Describe the parties involved in a letter of credit;

1. Applicant (Buyer): The party that requests the bank to issue a letter of credit in favor of the seller.
2. Beneficiary (Seller): The party receiving payment, which is assured by the letter of credit.
3. Issuing Bank: The bank that issues the letter of credit on behalf of the applicant.
4. Advising Bank: Usually the seller's bank, it verifies the authenticity of the L/C and advises the seller.

4.2.31 explain the different kinds of commercial letter of credit

A Letter of Credit (LC) is a financial document issued by a bank on behalf of a buyer, guaranteeing payment to the seller (beneficiary) upon meeting specific terms. In international trade, LCs provide security to both importers and exporters, ensuring payment and delivery are in line with agreed terms.

Here are different types of Letters of Credit, each with unique features and practical uses:

1. **Irrevocable Letter of Credit**
   Definition: his LC cannot be cancelled or modified without consent of the beneficiary (Seller). This LC reflects absolute liability of the Bank (issuer) to the other party.
   Example: An importer in Canada orders goods from a supplier in China. The Chinese supplier demands an irrevocable LC to ensure payment. Once issued, the LC cannot be canceled or amended without both parties' consent, ensuring payment security.

2. **Revocable Letter of Credit**
   Definition: This LC type can be cancelled or modified by the Bank (issuer) at the customer's instructions without prior agreement of the beneficiary (Seller). The Bank will not have any liabilities to the beneficiary after revocation of the LC.
   Example: A U.S. buyer issues a revocable LC for a German seller, allowing the buyer to alter terms if needed. The German seller is aware of this risk, and it's less commonly used as it lacks payment security.

3. **Usance Letter of Credit**
   Definition: A Usance Letter of Credit (also known as a deferred or time letter of credit) is a type of letter of credit that allows the buyer (importer) to pay the seller (exporter) at a specified future date after the goods have been shipped and the documents have been presented. This provides the buyer with a credit period, giving them time to sell the goods and generate revenue before payment is due.
   Example: A South African importer uses a 90-day usance LC to pay a supplier in Japan. The Japanese supplier ships the goods and receives payment 90 days after presenting shipping documents, giving the buyer time to sell the goods before paying.

4. **Revolving Letter of Credit**