



A Study on Documentary Letter of Credit Transaction based on Import & Export Procedure

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Received: May 03, 2021. Revised: June 26, 2021. Accepted: August 02, 2021.

Abstract

Purpose – In the credit transaction, the issuing bank must examine the documents to pay the credit amount. In order to smoothly execute the credit transaction, document review is a key element, so the 5th revised credit unification rule specifically defines the document review procedure.

Research design, data, and methodology – The document review procedure specified in the UCP Rules can be largely divided into the document review period and the rejection procedure for inconsistent documents. First of all, confusion was caused by the ambiguous regulation.

Result – With regard to the document review period, in the actual credit transaction, the issuing bank often negotiates with the issuing client about the waiver of the document inconsistency. Next, in the process of notifying the rejection of inconsistent documents, the issuing bank shall send the rejection notice.

Conclusion – This study suggests that the requirement to list all inconsistencies makes it impossible for the issuing bank to further notify the refusal, thereby limiting the right to defend against inconsistencies not listed in the first refusal notice and consequently having the effect of matching them. In addition, the issuing bank's rejection notice is closely related to the beneficiary's exercise of the right to replenish documents.

Keywords: Beneficiary, Issuing Bank, Documents Screening Period, Unpaid, Applicant

JEL Classification Code: M10, M31.

1. Introduction

Export procedures can be broadly divided into six stages: overseas market research, export contracts, payment settlement methods, transportation and insurance contracts, customs clearance and customs refunds. It can be divided into cash collection and claims. We select suitable buyers who can export marine products through overseas market research, and sign export contracts after completing the subscription and accepting the buyers. The payment method must be negotiated with the signing of an export contract, and the exporter prepares to join and transport the export and cargo insurance. Subsequently, export goods are shipped through export clearance, and in the case of a credit transaction, the procedure for recovering the export price is carried out through the bank after shipment. Subsequently, claims related to customs refund(Choi & Lee 2001) and product quality may occur, and these procedures are also called export procedures. This export procedure is based on Electronic Document Exchange (EDI). Due to the recent increase in the number of FTA signatories, if you submit FTA certificate of origin, you may be given the advantage of origin.

The term Letter of Credit (L/C) means a certificate by which an importing bank, an opening bank, agrees to pay the exporter, the beneficiary, when all conditions of the letter of credit are met and documents required by the letter of credit are presented within the contract period. In other words, a letter of credit is a type of financial instrument that converts commercial credit into bank credit as a contingent payment commitment of a letter of credit opening bank. The L/C Unification Rule UCP600 provides the definition of a letter of credit as follows: The term "letter of credit" means an irrevocable commitment by an opening bank that has made a payment agreement for a presentation consistent with the terms and conditions of the letter of credit. The requirement is that a letter of credit is an irrevocable commitment to payment, and a honor means payment, annual payment and payment of acceptance, not a commitment to purchase. However, the opening bank stipulates in the opening bank's payment agreement that the designated bank does not purchase or is obliged to pay for the documents presented after the purchase. It is meaningful that payment by purchase was excluded from the definition of a letter of credit, which was previously defined as payment by sight, acceptance, annual payment and purchase. Previously, direct payments by opening banks and indirect payments by other banks were excluded from the definition of a letter of credit, meaning that the L/C obligation relationship would expire when a final payment was made by the opening bank. The opening bank's commitment to payment is irrevocable, excluding the concept of a cancellable L/C, which is interpreted as possible if the other parties, the beneficiary and the confirming bank, agree. The revised UCP does not recognize an entity's opening letter of credit and provides for a provision of the opening bank's honor, which is indistinguishable from the concept of guarantee. A letter of credit is opened on the basis of a sales contract, but once a letter of credit is opened, the letter of credit becomes independent of the sales contract and forms a separate legal relationship on its own, which is called the independence of L/C transactions. The opening of a letter of credit involves a bank that is not a party to a sales contract, so the letter of credit transaction must be independent in itself and the bank has unique rights and obligations within the scope of the letter of credit transaction. A letter of credit is a convenient means of payment to promote trade transactions based on the characteristics of independence and abstraction, but on the other hand, it has the following limitations:

Because the letter of credit is merely a contractual nature, it is the bank's promise to pay the amount of the letter of credit if all documents meet the terms of the letter of credit are presented within a designated date, not an independent payment method.. The opening bank of a letter of credit is not a party to a sales contract and makes an independent promise to pay, acquire or purchase draft notes only if certain conditions are met. The letter of credit does not necessarily guarantee that the contract will be taken over. Since the L/C transaction is a paper transaction, there is no guarantee that the importer will get all the goods he or she contracted for opening the L/C, as the bank will pay only on paper regardless of the actuality. Therefore, the importer cannot delay or cancel payments due to the terms of the letter of credit and the terms of the trade contract, and an exporter who has performed under the terms of the letter of credit may be protected by the independence of the letter of credit. Article 4 of the Uniform Rules of L/C stipulates that in a letter of credit transaction, all parties make a documentary transaction, not a commodity, service or contractual transaction that may involve such documents. In other words, all parties shall decide whether to perform the sales contract solely on documents, and as long as the transport document is duly prepared, the bank shall fulfill its obligation to pay. The nature of the L/C transaction is that the parties involved in the transaction, particularly the buyer, pose many risks because of the obligation to pay the arriving goods for the presentation of transport documents different from the actual goods or contractual terms. In fact, even if the beneficiary deliberately prepares and presents a forged document even though the contracted item and other goods have been shipped, the payment obligation cannot be avoided if the document matches the terms of the letter of credit. As such, banks have limitations in transactions of letters of credit in that they are neither obliged nor liable to conduct an investigation to prevent contractual breaches other than letters of credit and consequent damages.

2. Overseas Market Survey

As a first step to export goods, the exporter determines the target market and importer based on the information obtained from the overseas market survey.

Overseas market research is an activity that collects, records, and analyzes all problems that may arise in the distribution and sale process from producers producing goods to consumers who finally consume them.

In other words, it is a series of processes that collect and analyze various information related to the sale of such products (national income, political and social conditions, customs, language, law, population, etc.) as an essential step in selecting a market in which exporters can export their products for a long-term and stable period.

Once the target market is determined through an overseas market survey, the exporter should look for a suitable importer.(Choi 2014)

The discovery of such overseas trading ships can be carried out through overseas market research by related agencies such as the Korea International Trade Association and KOTRA, as well as through a list of trading companies and participation in various fairs and expos.

Once a suitable overseas importer is determined, the importer's soundness is identified through a credit check, and a transaction is offered through the subscription form, and export contracts are reviewed with the consent of the importer.

2.1. Increased retailing of marine products due to corona19 in the world market

As one of the major changes caused by Corona19, interest in seafood retail has soared. The increase in marine product retail is increasingly likely to lead to permanent changes in consumer behavior.(Choi 2009)

These changes are expected to provide opportunities for supermarkets and fisheries suppliers. Global market research firm Nielsen released its analysis of the fisheries and beef markets for 16 weeks until June 20 this year. The growth in sales of fisheries products, adjusted for unit price growth, was 22.6% year-on-year, with 21% growth in beef and 25.8% growth in frozen categories. Three of the top four protein items (meat, marine products, etc.) that showed the most noticeable growth during this period were crab, lobster, and shrimp.(Chu & Yoon 2008). According to a recent FIMI Seafood Seminar, income support from the Corona 19 relief effort is believed to have contributed to the increase in crab, lobster and shrimp sales. Also, the increase in marine product retail since the spread of Corona 19 is a result of changing the existing perception. In the meantime, the reason why seafood is consumed at restaurants rather than at home is "difficult to cook," and if it is not consumed at restaurants, it is assumed that consumption of seafood will decrease. However, the fact that the restaurant shuts down changes the place of consumption of seafood to home shows that this is not the case. \Instead, consumers purchased marine products in other ways, such as visiting local agricultural markets or

Harbors or ordering them directly from distributors. This has led to increased retailing of fisheries products, which is expected to benefit the entire fisheries industry and the fisheries industry.

2.2. Chinese market change

Chinese e-commerce has been rapid growth. It's going up to 25% compared to that of ordinary year like 2019. First-half in 2020 trading volume is increased by 14% and Internet buyers also increased by 100 million persons. China's e-commerce market has grown significantly in the wake of the new coronavirus infection. Gao Feng, a spokesman for China's Commerce Ministry, (Chung 207), said in a weekly briefing on the 30th, "In the first half of this year, real goods transactions via the Internet amounted to 4.35 trillion yuan, up 14.3 percent from the same period last year." This accounted for 25.2 percent of the total retail sales.

2.3. Japanese recent economy trend

Japanese Government Announces GO TO EAT Campaign. On July 21 this year, the Ministry of Agriculture, Forestry and Fisheries (MAFF) launched an open recruitment of the 'Go TO EAT' campaign to support restaurants and suppliers of agricultural and fisheries products suffering from the Corona19(Chung 2020). The Ministry of Agriculture, Forestry and Fisheries plans to sign direct contracts with food voucher issuers, online restaurant reservation sites, performance verification agencies and counseling services, and public relations companies. According to Suisan Keizai, a daily fisheries economy newspaper, the campaign will be conducted through

competitive bidding, but the Ministry of Agriculture, Forestry and Fisheries will evaluate the cost effectiveness. The Ministry of Agriculture, Forestry and Fisheries plans to issue a total of 76.7 billion yen worth of meal tickets for use in registered restaurants, recruiting participants. At the same time, we are preparing points that can be used for the next visit when visiting via online booking (John 1991). This recruitment will be held until August 7th, and will be carried out sequentially in the areas where the contract is signed between the Ministry of Agriculture, Forestry and Fisheries and the companies are ready.

2.4. The Korean brand that is highly recognizable in Vietnam

The Korea Trade-Investment Promotion Agency's Ho Chi Minh Trade Center conducted a face-to-face survey to observe Vietnamese consumers' perception of Korean brands and summarized the results as follows. The survey was conducted on a total of 245 local consumers in Ho Chi Minh City, and all of the questions were descriptive without the options presented. In this article, the brand name is written in English spelling, which is written in Vietnam, for easy identification in the sentence.

How much do Vietnamese consumers know about the Korean daily consumer goods brand?

1) Cosmetics: Vietnam Consumer Consciousness Korea is a country that makes cosmetics well In the first question asking about the "Korean brand they are aware of," the first brand items that respondents thought of were cosmetics, electronic devices, food and entertainment services (John 2006). 212 out of 245 respondents (86.5%) mentioned cosmetics brands in response to "Korean brands that they recognize," clearly showing Vietnamese consumers' awareness of Korean brands for certain items. The results are likely to have been influenced by the fact that the gender ratio of respondents was biased toward women. However, 19 out of 33 male respondents (58%) mentioned cosmetics brands, so it is a small sample, but it is assumed that Vietnamese consumers have a high awareness of Korean cosmetics.

Korean cosmetics brands were especially popular among Innisfree, The Face Shop, and Laneige, all of which have something in common that they are operating offline stores in Vietnam. However, even if there are no offline shops in Vietnam, a number of Korean cosmetics brands that have built brand awareness only on the Internet were also observed thanks to active marketing activities by local agencies. When asked about "Korean brands with actual purchase experience," cosmetics brands (Dora 2004) were mentioned the most. The reason for purchase comes down to quality. Specifically, the respondents explained that they purchased Korean brand cosmetics because the ingredients and quality of the products were reliable and the reviews of other local consumers were good. At the same time, respondents commented that the price of Korean cosmetics is reasonable compared to imported cosmetics from the U.S. and European countries, and that they are more suitable for Asian skin (condition and color). It also confirmed that there are various options for the product. In addition to these reasons for the purchase, many said that Innisfree (Dong 2003), The Face Shop, and Laneige are already well-known names in Vietnam and are reliable. Analysts say that this is because they have been operating direct stores in large shopping malls or downtown areas for at least five years, while building quality trust with Vietnamese consumers by using the fact that their brand awareness is solid in Korea as well as advertisements by Hallyu stars (or local embers). For your information, some respondents who mentioned innisfree during the survey also explained keywords such as natural and mild ingredients. The strong point of Korean cosmetics brands entering the Vietnamese market is that they have a wide range of brand positions, ranging from low to high prices, and from teenagers to those in their 40s and older. In fact, the number of Korean cosmetics brands mentioned by 245 surveyed exceeds 50 by name alone. It is also well-received that Vietnamese respondents evenly mentioned a variety of Korean cosmetics brands, not being swayed by specific names with large corporate size and recognition. However, Korean cosmetics brands currently in circulation in Vietnam are very diverse, and the local cosmetics market is already red ocean. As competition among Korean cosmetics brands is inevitable under the same national brand of Korea, the Vietnamese cosmetics market at this point is inevitably a kind of Korean brand self-invasive environment.

2) Retail Distribution Channel: Our Enterprise, which is distributed evenly from supermarkets to large discount stores. The most universally recognized Korean modern retail channel brand by respondents was Lotte. In addition, when asked about modern retail channel brands, including convenience stores, supermarkets and supermarkets, respondents easily came up with Korean brands. Although the number is not large due to the size and business structure of the industry, Hyundai's retail distribution channels in Vietnam invested by Korean companies are evenly distributed by type, from convenience stores to department stores. Based on the responses of respondents to the previous survey, it seems that Korean companies related to retail distribution channels in Vietnam (Eberch & Ellinger1983) have been building strong brand awareness among local consumers. Lotteria of Lotte Group is the first-generation fast food

chain that dominated the local fast food market after the reform of Doimer in 1986 when Vietnam reopened its economic door. Lotteria (1998) succeeded in entering the market with a marketing strategy that understood local consumers, and has steadily expanded its affiliate business, including distribution of processed foods, the establishment of movie theaters, and the establishment of retail distribution channels under the name of Lotte. The same is true of the history of building awareness of local brands. Starting with Ho Chi Minh City in 2008, Lotte Mart in Vietnam has secured 15 branches in major areas such as Hanoi, Danang and Nha Trang. Among foreign marts, Lotte Mart has the largest number of branches after Big C. Meanwhile, respondents related to Lotte Mart said that they prefer the brand because it has good accessibility as it has branches in various regions, and because it has a wide range of products (Feenstra2004), and because it can trust the quality of the product. Emart first opened in Ho Chi Minh City in late 2015.

At this point, Emart's branch in Vietnam has established a solid reputation by selecting one strategic location, securing product diversity using its PB products and managing price balance, strengthening instant cooking services such as bakeries, Korean food, and pizza, and preparing space in the store so that consumers can eat them right away. In fact, respondents who said they preferred Emart during the survey attributed the reason to the variety of products, high quality products and reasonable prices. Like Lotte Mart, Emart also exports products from Vietnam based on its Vietnam business to Korea. The supermarkets were mentioned as K-Market and Sky Mart, which were founded by Korean private operators. However, the latter should be located only in the seventh group in Ho Chi Minh City, while taking into account the background of the survey conducted at shopping malls in the same area. On the other hand, K-Market also has branches in major local centers outside of the region, where the density of Korean residents is high. In 2017, the brand was selected as one of the top 100 Vietnamese brands, products, and services (or Vietnam's top 100 brands). K-Market's main sales products are Korean food and consumer goods imported from Korea, and they sell locally supplied agricultural products and processed foods. Some respondents mistook the global convenience store chain Circle K as a Korean brand. There were also respondents who knew that K+, a local TV program provider service brand, belonged to Korea. Since events and contents related to Korea are often introduced in Vietnam (Gray 1976), including the words K-pop and K-food, it is assumed that local consumers mistook them.

3) Food: From processed foods to franchises, one or more known Korean brands Lotteria and CJ Foods were mainly mentioned when asked about Korean brands related to food (dining-out service and processed food). For your information, respondents first mentioned CJ Foods' corporate name, while also recognizing its brands Bibigo and CJ Foodville's Tous Les Jours. Korean brands related to the restaurant service were divided into chicken and BBQ (beef including pork). Specifically, the respondents said they were aware of Korean brands including Don Chicken, Papa's Chicken, Mom's Touch, Otoké, Gogi House*, King BBQ, Hana BBQ and Bookki. Among them, BBQ restaurants were mostly founded by Vietnamese (or foreign investors), not Koreans (Ha & Huh 2009). For your information, some of the respondents to Lotteria shared their opinions, referring directly to our chicken products.

2.5. Increase Russian-Turkish trade volume, open Turkish-Russian skyways.

Sergey Levin/Сергей ЛевинСергей, Russia's vice minister of agriculture, and Akif Ozkaldi/Акиф, Turkey's vice minister of agriculture, held their third meeting. Participants at the meeting said they discussed increasing trade between agricultural and fishery products and food quarantine. Vice Minister Sergei Levin noted the large increase in agricultural trade volume between the two countries, saying that Corona 19 did not have any effect on bilateral transactions, and explained that trade volume increased by 30% (\$2.2 billion) this year compared to the first half of 2019. On top of that, Russia's exports rose about 40 percent to 3.2 million tons, reaching \$685 million, it added. Turkey said it is a major import of Russian wheat and plans to expand cooperation in the agricultural sector in the future in line with the trend. Over the same period, barley rose 2.5 times to about 220,000 tons (4 million dollars) and corn tripled to about 460,000 tons (7.7 million dollars). In addition, Russia paid attention to the export of livestock products, especially beef, and mentioned other quarantine requirements such as poultry, fish and meat (including lamb), while Turkey said it was already ready to conduct a review of Russian exporters. During the meeting, the two sides agreed to continue strengthening bilateral cooperation in exporting and importing agricultural products. Russia and Turkey have historically had a love-hate relationship, but the two countries continue to work closely together based on practical benefits (Han 2007). Turkey is also one of the few Mediterranean countries where Russians can enter without visas, making it the place where they spend most of their vacations. According to information recently released by the government, Russia plans to resume some international air routes from Aug. 1 and will allow the people of the countries in question to enter Russia as an exception. Three countries are eligible, including Turkey.

3. Export contract and payment

The export contract will be signed through a buyer's offer and acceptance after selecting the buyer of the exporting country through an overseas market survey. The contract has no uniform form or separate form, and there is no prescribed procedure. However, they usually use e-mail or e-mail for verification in case of future disputes. The export contract consists of five main parts. It consists of basic matters such as the establishment of a contract (Han 2018), and the expiration date of the contract, the goods themselves, the performance of the contract, the non-fulfillment of the contract, and the terms of the formal transaction. This table provides information on classification, contents, basics, product itself, contract execution, contract default, and standard transaction conditions.

Table 1: Kinds of Export Contract Items

Classification	Frequency
Basic items	Confirmation and establishment of a contract between the parties to the contract, and extension of the term of validity of the contract;
Product themselves items	Quality conditions, quantity conditions, price conditions, packing conditions, etc., which mean the period for determining the quality and quality of the goods
Contract performing items	Terms and conditions such as the date and place of shipment, payment terms and conditions concerning payment methods, insurance conditions, etc.
Contract non-performing items	Claims clauses, arbitration clauses, etc., such as the period and method of filing a claim for non-compliance;
Formal transaction conditions	Regular terms and conditions (Incoterms), etc.

3.1. A general outline

There are three main ways to pay for exports: L/C, remittance, and collection. The L/C transaction guarantees the importer and the exporter. Transactions are made through each bank, and the remittance transaction is a payment method in which the importer remits the import amount according to the time of remittance. Can be distinguished. Collective transaction is a method in which the exporter delivers the goods and the importer issues a draft.

3.2. A letter of credit

Letter of Credit (L/C) is a conditional payment guarantee that confirms payment when the exporter presents a document consistent with the specified conditions after the bank opens the letter of credit at the request of the importer to facilitate payment during the trade transaction. If the export contract is a L/C payment method, when the letter of credit opened by the importer of the other country arrives (Jeon 2006), it shall be obtained through the notification bank, and information such as whether the details of the export contract are identical, irrevocable L/C, and whether the credit status of the opening bank is required shall be inquired through the Korea Trade Insurance Corporation, and a correction shall be required.

A table of characteristics of a letter of credit that provides information about characteristics and contents.

Table 2: Characteristic of Letter of Credit

Classification	Frequency
Principle of Independence	The opening of a L/C is based on a sales contract or other contract, but is a separate transaction from the contract, that is, if a party to the transaction decides to settle the transaction in an irrevocable letter of credit under the terms of the sale contract, the importer requests the opening of the L/C to his/her own bank, but after the letter of credit has been opened, he/she is independent of the contract.
Principle of Abstract	The Bank does not deal with the goods or services related to the document in the L/C transaction by document, so it also requires the goods in writing and the quality issue must be resolved through resolution or claim raising between the parties.
Limits	On the basis of independence and abstractness of the Bank's involvement in L/C transactions, the L/C does not fully guarantee the quality of goods to the importer, who has limitations that facilitate payment but cannot fully guarantee the trade transaction, which is a real transaction, and the L/C does not guarantee the exporter any delay in payment or refusal of payment due to defects in documents.

1) Concerned parties to the L/C's transaction Through L/C transactions, the receiver and the bank that have direct rights and obligations are divided into the basic parties, and the banks that participate indirectly for smooth L/C transactions (Kang 2011) can be divided into other parties.

3.3. The examination of documents by a bank upon the presentation of a letter of credit.

3.3.1. criteria for document review - screening agency

The opening bank or the confirmation bank will review the documents and pay the draft to the purchasing bank if the documents match.

3.3.2. examination by document

The opening bank or confirmation bank shall examine documents sent by the purchasing bank only when verifying that the documents are listed on the L/C.[UCP 600 Article 14a of the Rules of L/C Rules (UCP 600).] The opening or confirmation bank must complete the review within a maximum of five business days from the day after the date of presentation.[Article 14b of the United L/C Rules (UCP 600).

3.3.3. Presentation period

The documents shall be presented to the opening bank or the confirmation bank no later than 21 days after shipment, and in no case shall they be later than the expiration date of the L/C.[Rules for the Unification of L/C (UCP 600) Article 14c.]

3.3.4. Document preparation period

It is irrelevant that the document was written before the opening date of the L/C, but it should not be written on a date later than the date of presentation.[Article 14i of the United L/C Rules (UCP 600).]

3.3.5. An unacceptable document

If a document is submitted not required by the L/C, it may be excluded from the review and returned to the presenter.[UCP 600 Article 14g of the United L/C Rules (UCP 600).] If the letter of credit does not contain any documents to prove the terms, the Bank interprets the terms as non-written.[Rules for the Unification of L/C (UCP 600) Article 14h.]

3.3.6. The documents match

The opening bank must make a payment if the documents listed on the L/C match the ones presented.[UCP 600 Article 15a of the Rules for the Unification of L/C (UCP 600).] If the confirmation bank determines that the documents listed on the letter of credit match the documents presented, it must make a payment or purchase and send the documents to the opening bank.[Article 15b of the United L/C Rules (UCP 600).]

Table 3: Imports & Exports contrast

Factors	Mean (SD)	(1)	(2)	(3)
Exports	4,313,755	124,388	2.9%	7th
Imports	4,422,916	133,046	3.0%	8th
Trade amounts	8,736,670	257,433	2.9%	8th

3.3.7. The effect of presenting an expired letter of credit.

(Question) I made the next day's purchase (Nego) to the bank because the date of the letter of credit notified was 'Credit Expires on 13 March 2011' but because it was a holiday on March 13, 2011. However, the purchasing bank received a 'Credit Expired' notice from the opening bank. In this case, is it reasonable to reject the opening bank's payment?

(Answer) Yes, it makes sense. The purchase bank must present the credit to the opening bank by the expiration date of the credit card on March 13, 2011, but if the purchase bank made a purchase request to the opening bank at 3, 14, no matter how soon the purchase bank presents (Kim & Kim 2003), it to the opening bank, the refusal of payment by the opening bank is reasonable. Such problems can occur, and upon receipt of a letter of credit, it needs to carefully understand and prepare the terms of the purchase.

Furthermore, regarding the extension of the effective date or the final date of the L/C, there are international agreements, such as the UCP600. Exceptions will be granted for exceeding the deadline for submission of documents due to force majeure.

Table 4: Import and export status in Korea (Standard: June 2020)

Classification	Frequency
5 major imports	Crude oil, semiconductor, natural gas, semiconductor manufacturing equipment, petroleum products
Trade dependence	63.7% (Export 33.0%, Import 30.7%) (as of 2019)

Source: Data from World Trade Organization 2020

3.3.8. Review of documents by banks following the issuance of letters of credit

The opening bank or the confirmation bank shall examine the documents and pay the draft to the purchasing bank if the documents match the documents. The opening bank or the confirmation bank shall review the documents sent by the purchasing bank only with the documents listed on the L/C, and shall complete the examination within a maximum of five business days from the day after the presentation date. The documents shall be presented to the opening bank or the confirmation bank not exceeding 21 days after shipment, and in no case shall be later than the expiration date of the L/C. In addition, the document is not related to the date of opening of the L/C, but it must not be written on a date later than the date of presentation. If a document is submitted not required by the L/C, it may be excluded from the review and returned to the presenter. In addition, the Bank interprets that the terms are not listed

unless the letter of credit contains a document to prove the terms. If the opening bank determines that the documents listed on the letter of credit match the documents presented, it must approve them. If the confirmation bank determines that the documents listed on the letter of credit match the documents presented, it must make a payment or purchase and send the documents to the opening bank.

4. Purchase of export bills under the terms of credit

4.1. Purchase of Documents defect

4.1.1. The significance of the document defect

Defect in a document refers to a discrepancy with the terms of the letter of credit, or inconsistency between the documents, and such defects in the document result in the failure of the export draft or refusal to accept the purchase amount.

If any minor defects are found due to changes in credit status, such as worsening financial conditions or changes in conditions in the market conditions of the import destination(Kim 2017), so-called market claims are often raised, such as refusing to pay or take over them. If a bill fails or is rejected due to a defect in the document, it is not easy to resolve the bill due to the upper level of laws and customs or communication difficulties, unlike domestic transactions. Therefore, the exporter should closely examine the manufacture of the L/C inner city L/C, and pay close attention to the preparation of the draft of exchange in Nego and other shipping documents. Once a defect in the documents is found, the Purchasing Bank will take measures in the form of supplementing the function of the L/C, in which case a L/C charge may be imposed as a fee according to the pre-arranged content on the L/C.

Meanwhile, after a certain period of time after the completion of Nego, the Purchasing Bank may send an additional less charge payment notice to the Export Merchants, which is a fee for defects incurred during the opening bank's review of the draft and shipping documents purchased by the Purchasing Bank. Less Charge is an expense incurred by the Purchasing Bank if the Purchasing Bank has received a refund from a Nego City exporter, but the opening bank has delayed the payment of the L/C in excess of this period, and additional bank fees not found in the Nego City are charged from the Overseas Bank, and the Purchasing Bank will charge the Exporter for these costs additionally. The reason why the exporter pays the Less Charge for the deferment of the import payment by importers or for the opening bank's purchase bank is because the exporter(Koo & Huh 2007) is the beneficiary of the letter of credit due to the nature of the letter of credit transaction. If the cause of the cost is due to the deferred import payment, the exporter shall pay the Less Charge and notify the importer of the notification and processing details of the Less Charge.

4.1.2. Major contents of document defects

The main contents of the defect in relation to the purchase of the export draft are as follows:

Table 5: Contents of Draft Defects

Classifications	<ol style="list-style-type: none"> 1) late shipment 2) Late presentation 3) Transshipment 4) Partial shipment 5) irregular instalment shipment) 6) received B/L 7) Different Shipping line 8) Different consignee 9) Different notify party 10) Overdrawing L/C amount 11) Different Description of Goods 12) Insurance not covered as in L/C 13) Lack of documents
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4.1.3. Actions taken after receiving a notice of bankruptcy

- 1) Upon receipt of a notice of bankruptcy from the Bank for the Opening of L/C, a full text shall be sent in the name of the purchasing bank stating that the collateral documents should be kept until further instructions are given.
- 2) If the validity period remains after reviewing the defects without delay, the corrected documents shall be sent to the opening bank through the purchase bank. The opening bank shall not be able to default on the amended transport documents (Kim 2005), if they conform to the terms of the letter of credit.
- 3) If bankruptcy is processed for reasons such as delay of shipment, the resolution with the importer should be sought immediately.
- 4) If it is not resolved amicably with the importer, quickly investigate whether the product can be sold to a third party and find a solution.
- 5) Long bankruptcy periods mean high costs such as delayed interest and warehouse fees, and it is desirable to seek a quick solution considering the deterioration of products.

4.1.4. Purchase method of defective documents

If the details of the documents are presented to the purchasing bank after the expiration of the effective date of the L/C, or if the delayed shipment is recorded on the bill of lading, the exporter will not be able to rewrite or correct the documents arbitrarily. In such cases, the Purchasing Bank shall select from among the following four methods, depending on the severity of the defect, the preservation of the bonds, the transaction performance of the applicant or the creditworthiness of the purchaser: Occasionally, the purchase bank is involved in a trade fraud in the process of buying the draft. From the perspective of the risk of buying draft by the purchasing bank, the purchase after collection is the safest, followed by the purchase of the guarantee book (Schmittha 1990), and the purchase order after changing the terms of the letter of credit, and the purchase method after checking the whole body has the greatest trade risk.

(1) Purchase after collection

A purchase after collection is a method of payment after settlement by requesting inference without directly purchasing the documents requested for purchase. As for exporters, they will be pressured to turn their funds around as much as during the collection period, and they will have to pay a certain collection fee for the collection process.

Purchase after collections are used following cases.

- 1) Where it is almost certain that a document with a serious defect will go bankrupt;
- 2) In case the letter of credit issued by a bank that has not entered into a foreign exchange agreement is suspected of its authenticity;
- 3) Where the credit status of the applicant for purchase is poor
- 4) In case it is deemed difficult to collect other export payments;

(2) Purchase of a guarantee department

Under Reservation is a method of obtaining and purchasing a confirmation letter to the Purchasing Bank that it intends to repay the purchase of the export draft if the purchased document fails due to a defect.

The purchase of guarantee book is made by credit only for export regardless of the payment guarantee of the opening bank, so it is necessary to provide collateral (Lee 2002), and the exporter must pay an additional fee when collecting the exchange fee.

(3) Purchase after changing conditions of L/C

A purchase after a change in the terms of a letter of credit is a method in which the beneficiary contacts the requester to purchase the letter of credit if he or she has time to spare, and this is the safest way for the purchase bank to do so, if possible, the terms and conditions of the letter of credit. In this case, since importers often notify them to purchase a guarantee on the grounds of the burden and hassle of changing the terms and conditions, it is also a good idea to send the agreed evidentiary documents in addition to the required documents on the letter of credit (Nam 2011) when purchasing the documents.

(4) Buying after checking the whole body

Cable nego is a method of obtaining approval from the opening bank after obtaining approval from the opening bank by pointing out the details of the documents presented to the L/C opening bank and inquiring whether it is okay to purchase them despite the defects. In such cases, the applicant shall bear the expenses incurred in conducting a telegraphic inquiry, and if the bank agrees to open a telegraphic inquiry, it will have the same effect as the modification of the terms of the letter of credit, which will be a safe method of purchase.

4.2. The approval of an import bill

4.2.1. Significance of Payment of Imported Currency

If the purchasing bank that purchased the draft issued by the exporter sends it to the opening bank of the import destination L/C and requests payment in accordance with the terms of the letter of credit, the opening bank that has received the documents will first carefully examine the purchasing bank's Covering Letter. In particular, if the Purchasing Bank purchases defective transportation documents, the details of the discrepancy with the terms of the L/C and the details of the processing process are recorded, so it is necessary to determine whether to take over the documents after reviewing them and notify them of payment order or refusal.

4.2.2. Letter of Guarantee for Pre-emptive Imported Cargo

Letter of Guarantee (L/G) is a guarantee to the shipping company to submit a guarantee jointly guaranteed by the importer and the opening bank prior to the delivery of the shipping documents to the shipping company on behalf of the original version of the Sunhwa Securities and to receive the imported cargo if the import goods have already arrived but no shipping documents have arrived. Such an Imported Cargo Guarantee (L/G) is, in form, issued to the shipping company by the importer, which lists the cargo to be delivered, makes arrangements for the shipment, and the opening bank signs as a guarantor, which in substance is regarded as a certificate issued by the opening bank. In the event of an application for the issuance of an import freight forward guarantee (L/G), the opening bank shall issue a guarantee after confirming whether the details of the documents are consistent with the letter of credit.

However, if an import cargo is a cargo that is feared to be corrupted or corrupted and a notice of shipment has been received from the other bank, the opening bank may issue an import freight forward guarantee (L/G) only after receiving an application for issuance and a notice of arrival. The opening bank shall not make a claim on the issue of the import freight forward guarantee, nor shall it issue the import freight forward guarantee (L/G) if the original document has already arrived. Once the Imported Cargo Guarantee (L/C) is issued, the original document will later arrive at the opening bank and cannot be rejected even if there is a defect in the document.

In principle, if the original document of the transport document is delivered after issuing the L/G, the opening bank shall submit the original bill of lading to the original copy of the bill of lading and send it to the shipping company along with the Receiving of Letter of Guarantee.

4.2.3. Trust Receipt

1) Significance of import cargo Trust Receipt: T/R is a system that allows importers to dispose of imported goods even before settling bills, while ensuring that the opening bank does not lose its right to collateral for those goods. In the case where the L/C transaction is a term bill, the importer can take over the draft and dispose of the imported cargo by taking over the draft and settle the bill on the maturity date with the proceeds from the sale. In the case of at sight (Lee 2019), the importer cannot receive the document unless the bill is paid. Conversely, in the case of a draft at sight, the importer submits an application for an import freight forward to the bank that opens the letter of credit, and the opening bank allows the importer to dispose of the goods in a timely manner, so that the proceeds from the sale can be settled. In addition, the opening bank provides convenience to the importer so that if the payment is delayed, the importer can deliver the cargo to the importer without losing its right to collateral for the cargo, as it does not have much profit even if it owns the cargo itself.

5. Conclusion

In a letter of credit transaction, the issuing bank shall examine the documents presented by the beneficiary to determine whether to pay the bill.

The procedures for such document review are also procedures that must be followed for the smooth implementation of L/C transactions.

Reviewing the provisions of the Rules for the Unification of L/C, the regulations on the document review procedures of the issuing bank consist of three main points: the document review period, the right to negotiate with the issuing requester, and the notice of refusal on inconsistent documents.

Imported freight forward (T/R) may be classified from a financial perspective as follows:

- 1) T/R by import of raw materials for export (Lee 2007), which benefits trade finance (raw material import fund) when importing raw materials for export and repay the import price when performing the corresponding export.
- 2) Receiving financing (T/R), which is imported by the terms of the term L/C or the terms of the receipt of the bill (D/A) and is repaid at the end of the annual payment period.
- 3) It is a major road (T/R) due to the installment payment, which imports foreign currency acquisition facilities, etc. and repays them in accordance with the installment payment method.
- 4) A loan (T/R) by foreign currency loans and loan funds, which are repaid on a foreign currency loan or loan repayment schedule.
- 5) T/R by T/R Loan, which is a route (T/R) in which the general revenue is granted credit under a T/R agreement for a specified period of time.

L/I promises in writing that the consignor will bear the responsibility of the shipper by issuing a clean B/L without issuing a foul B/L (dirty B/L) in the event of any damage to the cargo in the commodity transport contract. The principle is to clearly state the quantity, status, etc. of the goods received by the shipper on the bill of lading. That is, if there is any damage to the goods when the goods are shipped to the main line, these damaged parts are listed in the reminders on the surface of the bill of lading with the accident requirements concerning the appearance or packing conditions of the red ink, etc., the bill of lading shall be broken. However, it has been common for the shipper to submit a damaged cargo compensation certificate and receive a non-faulty bill of lading (Felicity & Harle 2007), that has deleted the accident requirements of the bill of lading since long ago, as most of the L/C transactions require a non-faulted bill of lading. As a general procedure for the issuance of a bill of lading in transit, the amount and appearance of the shipment actually received in the Mate's Receipt: M/R, signed by the first mate, and presented to the shipper by the shipper and presented the details of the certificate of lading. In practice, however, at the same time as submitting the certificate of receipt to the shipper, the shipper requests the shipper to issue a bill of non-faulted lading that does not include the details of the certificate of receipt, and as a result (Suk 2004), it is customary to provide the shipper with a certificate of compensation for damage that the shipper will incur in the future and issue a bill of non-faulty lading in exchange for it.

LETTER OF INDEMNITY

2003. .
S.S.M.V. " " Voyage No. Sailed

Dear Sir,

In consideration of your handling us clean Bill of Lading for our shipment by the above vessel as described below, the mate's receipt at which bears the following clause:

We hereby undertake and agree to pay on demand any clean that may thus arise on the shipment and/or the cost of any consequent reconditioning (Lee 2017), and generally to indemnify yourselves and/or agents and/or the owners of the said vessel against all consequences that may arise from your action.

Further, should any claim arise in respect of this goods, we hereby authorize you and/or agents and/or owners of the vessel to disclose this Letter of Indemnity to the underwriters concerned.

Your faithfully,

Table 6: Articles of Letter of Indemnity

Classification			
Marks & Nos.	No. of Packages	Description	Destination

In a letter of credit transaction, the issuing bank shall examine the documents presented by the beneficiary to determine whether to pay the bill.

The procedures for such document review are also procedures that must be followed for the smooth implementation of L/C transactions.

Reviewing the provisions of the Rules for the Unification of L/C, the regulations on the document review procedures of the issuing bank consist of three main points: the document review period, the right to negotiate with L/C applicant, and the notice of refusal on inconsistent documents.

According to the review and case analysis of the L/C unification rules, the document review procedures of the issuing bank and the effect of the violation can be summarized as follows.

First, the document review period of the issuing bank has been controversial in its interpretation due to the vague regulations in the past, but the 5th Amendment to the L/C unification rule stipulated that the period does not exceed the 7th bank business day from the day after receipt of the document, thereby establishing a clear standard for the document review period by eliminating ambiguity.

However, it should be noted that the document review period does not mean the period during which the issuing bank can decide on payment or refusal after receiving the document, but includes the period until the document review results is notified to the presenter of the document. If the issuing bank exceeds this review period in the document review, the issuing bank loses its right to reject the document.

Second, there is a problem of exercising the right to negotiate with applicant as a matter to be noted in relation to the document review period of the issuing bank. The issuing bank may negotiate with the applicant whether to revoke the rights to such discrepancies if any discrepancies are found in the document review. Although the exercise of the right to negotiate with the applicant is not mandatory and is beneficial to the beneficiary, the exercise of the right to negotiate with the applicant has no effect on the document review period, so it cannot exceed the 7th bank business day, which is the document review period, due to the negotiation of the right to the discrepancy with the applicant.

Third, the issuing bank shall give notice of refusal of inconsistent documents to the presenter in case of documents discrepancies.

Such refusal notice shall be subject to the requirements of prompt delivery, entry of all discrepancies and entry of the status of disposition of documents, and in violation of these requirements, the issuing bank will lose its right to appeal, regardless of its actual existence.

Fourth, the notice of refusal from the issuing bank is closely related to the exercise of the beneficiary's right to supplement documents. The beneficiary's right to supplement documents is generally recognized, though not stipulated in the Rules for the Unification of L/C.

Because such a right to supplement documents has a time limit of the date of document submission or effective date of the L/C, in case there is no prompt notice of rejection from the issuing bank, the beneficiary may not have the time to supplement the inconsistent documents, and may not be able to make up for the complementary discrepancies and face a situation in which the payment is not made.

Conclusively, if the issuing bank fails to comply with the document review procedure, it will result in payment of non-conformity documents, which will lead to disputes with the applicant in the future. In addition, if the issuing bank complies with the document review process, it will be a measure to enhance the usefulness of the L/C transaction by protecting the issuing bank itself and allowing the beneficiary to receive payment by exercising the right to supplement documents easily.

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