



## INFORMATION DIGEST

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### Transferable Letter of Credit Case

*(Editor's Note: This case is an excerpt translated into English from "Fraud in International Trade", a book in Turkish by Abdurrahman Özalp containing nearly 50 fraud cases.)*

The parties to a transferable letter of credit are:

Issuing Bank:	DTB Bank
Advising/Confirming Bank:	BNB Bank
Buyer/Applicant:	Company A, Turkey
Seller/First Beneficiary:	Company S, Bahrain
Manufacturer/ Second Beneficiary:	IOA Firm, Taiwan
Letter of Credit Amount:	USD 300,000
Property Type:	PC materials (hard disk, case, keyboard, mouse, motherboard)
Type of LC:	Confirmed and transferable, 90 days after shipment

A transferable letter of credit was issued by DTB Bank, located in Turkey. BNB Bank in Bahrain advised the letter of credit by adding its confirmation. Company S (First Beneficiary) located in Bahrain sent a transfer instruction to BNB Bank (Advising/Confirming Bank) to transfer the entire letter of credit to IOA Firm (Second Beneficiary) in Taiwan for USD 270,000. Advising/Confirming Bank transferred the letter of credit to Second Beneficiary for USD 270,000.

Second Beneficiary shipped the goods in accordance with the letter of credit and sent the documents to the Confirming Bank. The documents were examined and found to be in compliance with the LC terms and conditions by the Confirming Bank. First Beneficiary made an invoice substitution (billing 300,000 USD instead of 270,000 USD). According to UCP600, it is possible. As a result, the documents complied for both banks, i.e. Confirming Bank and Issuing Bank.

First Beneficiary then informed the Confirming Bank that it wanted to discount the documents after 20 days. The Confirming Bank notified of the discount price. The pricing was slightly over market, namely high, however, First Beneficiary accepted the higher price and commission and asked for the payment by discounting it from the Confirming Bank. Confirming Bank checked the conditions of the letter of credit and discounted the

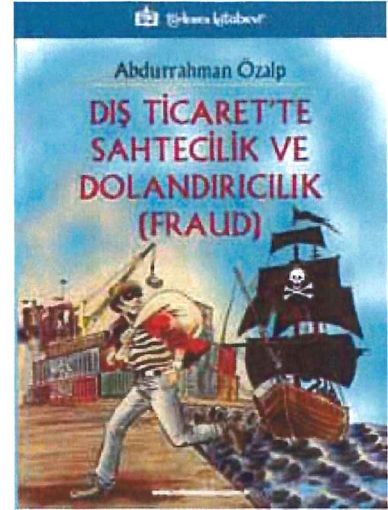
letter of credit after it determined that there were no obstacles such as preliminary injunction or assignment. Confirming Bank paid the remaining money to the account of the First Beneficiary after interest charges and commissions were deducted.

When the payment due date arrived, Second Beneficiary demanded the amount from the Confirming Bank.

Confirming Bank said it discounted the futures price and paid it to the First Beneficiary. The Second Beneficiary wanted to be paid USD 270,000 and said that the discount claim was not authorized and that it did not receive the money. In fact, the First Beneficiary did not make a second payment after receiving the money. First Beneficiary misled the Confirming Bank with insufficient details on the discount instructions after First Beneficiary offered the Confirming Bank the high commission and interest rate that they accepted afterwards.

In its instructions the First Beneficiary stated: "We have agreed with [Second Beneficiary] regarding the presented documents under L/C nr.12345. We accept interest and commissions that our firm has reported. In this context, please discount the documents amount and pay us the remaining amount after you deducted your interest and commissions. We ask you to transfer the amount to the account of [First Beneficiary's Bank]."

The Bank here has no doubt that the contract is mainly made up of two parts, the price of the original commodity is the second beneficiary, but the intermediary share of the intermediary belongs to the first beneficiary and that it will be released from its obligation by making with a one-time payment and the possibility of that there is no real agreement between the first beneficiary and the second beneficiary. The bank was defrauded by the First Beneficiary as the result of this carelessness.



"Fraud in International Trade"  
by Abdurrahman Özalp  
Available in Turkish.

For more information, see:  
[www.abdurrahmanozalp.com](http://www.abdurrahmanozalp.com)