**DISCOUNTING & NEGOTIATION POLICY UNDER DCs**

1. **CONFIRMED DOCUMENTARY CREDITS:**

**Note: The term “Confirmation” mentioned herein includes ”Silent Confirmation”.**

**USANCE NEGOTIATION TYPE CREDITS:**

Article 8 of UCP600 states that the confirming bank is irrevocably bound to negotiate without recourse as of the time it adds its confirmation to the credit should the beneficiary present a complying presentation,

Therefore:

* If the documents comply then the confirming bank is obliged to negotiate according to the instruction of the beneficiary without first receipt of the message from the issuing bank indicating the acceptance of documents.(Note: For risk management purposes, confirming bank should consider as far as possible to first receive acceptance message before the negotiation for some beneficiaries for example SMEs).
* If the documents does not comply and the beneficiary cannot cure the discrepancies within the deadlines and instructs us to sent the documents under reserve or on approval basis to the issuing bank - in which case confirmation obligation for that presentation becomes null and void - then if and when the documents are accepted by the issuing bank there are two options available hereunder:
1. If there is a commercial benefit, reinstate the confirmation obligation as per the instruction of the beneficiary – in which case confirmation reinstatement letter must be signed and handed over to the beneficiary and non-cash risk must be recorded against the issuing bank- and pay at the maturity date or negotiate by advancing funds to the beneficiary before the maturity date according to the needs of the beneficiary,
2. Negotiate only by advancing the funds to the beneficiary before the maturity date without the need to reinstate confirmation obligation. (Note: In this case, also there is no need to have an authorisation message from the issuing bank to negotiate.)

*IMPORTANT NOTE: Under a negotiation credit – whether it be sight or usance, the draft, if called for, must be required to be drawn on the bank other than the nominated bank, i.e. issuing bank, reimbursing bank or first confirming bank if any, where we are the second confirming bank.*

**DEFERRED PAYMENT AND ACCEPTANCE CREDITS:**

Sub-Article 12 (b) of UCP600 states that the nominated bank is authorised to prepay and purchase (discount) its deferred payment undertaking and acceptance but is not obliged to do so, i.e. we retain the right not to discount but in any case obliged to pay at maturity on presentation of complying documents when we are the confirming bank.

Therefore:

* If the documents comply then we are able to discount our deferred payment undertaking or acceptance without first receipt of the message from the issuing bank indicating the acceptance of documents with of course, retaining the right to await for the acceptance message from the issuing bank prior to dicount (Note: Awaiting for the message could be cosidered for some beneficiaries for example SMEs).
* If the documents does not comply and the beneficiary cannot cure the discrepancies within the deadlines and instructs us to sent the documents under reserve or on approval basis to the issuing bank - in which case our confirmation obligation for that presentation becomes null and void - then if and when the documents are accepted by the issuing bank, there are three options available as under:
1. If there is a commercial benefit, reinstate the confirmation obligation as per the instruction of the beneficiary – in which case our confirmation reinstatement letter must be signed and handed over to the beneficiary and non-cash risk must be recorded against the issuing bank - and pay at the maturity date or discount and pay the beneficiary before the maturity date according to our choice and the needs of the beneficiary or,
2. Incur a deferred payment undertaking or accept the draft as the case may be– in which case our “deferred payment undertaking acceptance of draft letter” must be signed and handed over to the beneficiary and non-cash risk must be recorded against the issuing bank - and pay at the maturity date or discount and pay the beneficiary before the maturity date according to our choice and the needs of the beneficiary, (Note: In thhree options above, there is no need to have an authorisation message from the issuing bank to discount.)
3. Request the issuing bank to authirise us to discount and if it gives, discount and pay the beneficiary before the maturity date without the need to reinstate confirmation obligation.

*IMPORTANT NOTES:*

* *Under acceptance credits and where we are the nominated bank the usance draft should be drawn on us, therefore it should be held on our file and not to be sent to the issuing bank along with the documents.*
* *If the credit is available by negotiation at sight or payment at sight, bears our confirmation and provides the payment to be made be the issuing bank against our MT754 message or the like or allowes us to reimburse ourselves on the reimbursing bank value 3-5 banking days on presentation of complying documents, we are, of course, able to negotiate or discount as the case may be and pay the beneficiary before the end of such 3-5 banking day period.*
1. **UNCONFIRMED DOCUMENTARY CREDITS:**

**USANCE NEGOTIATION TYPE CREDITS:**

Under UCP600 when we are the nominated bank i.e. the field 41A/D is available with us or any bank and documents are dispatched to issuing bank through us, we are at liberty to negotiate the documents. Of course, such negotiation should be done after acceptance of documents by the issuing bank.

Therefore, irrespective of the documents are sent to the issuing bank under reserve, on approval, as presented etc we are able to negotiate the drafts and/or documents and pay the beneficiary on receipt of acceptance message from the issuing bank.

*IMPORTANT NOTE: Under a negotiation credit – whether it be sight or usance, the draft, if called for, must be required to be drawn on the bank other than the nominated bank, i.e. issuing bank or first confirming bank if any.*

**DEFERRED PAYMENT AND ACCEPTANCE CREDITS:**

Under sub-article 12 (a) of UCP600 we are allowed to incur a deferred payment undertaking or accept the draft drawn by the beneficiary and under sub-Article 12 (b) we are authorised to prepay and purchase (discount) our deferred payment undertaking or acceptance but are not obliged to do so, i.e. we retain the right not to discount but in any case ae obliged to pay at maturity when we have incurred a deferred payment undertaking or accept the draft.

Therefore, irrespective of the documents are sent to the issuing bank under reserve, on approval, as presented etc we are able to discount the drafts and/or documents AFTER ACCEPTANCE OF THE DOCUMENTS BY THE ISSUING BANK in the following circumstances:

1. Incur a deferred payment undertaking or accept the draft as the case may be– in which case our “deferred payment undertaking acceptance of draft letter” must be signed and handed over to the beneficiary and non-cash risk must be recorded against the issuing bank - and pay at the maturity date or discount and pay the beneficiary before the maturity date according to our choice and the needs of the beneficiary, (Note: In this case, there is no need to have an authorisation message from the issuing bank to discount.)
2. Request the issuing bank to authorise us to discount and if it gives, discount and pay the beneficiary before the maturity date without the need to reinstate confirmation obligation.

*IMPORTANT NOTE: Under acceptance credits and where we are the nominated bank the usance draft should be drawn on us, therefore it should be held on our file and not to be sent to the issuing bank along with the documents.*