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- BACK-TO-BACK LCs

The heart of a back-to-back letter of credit transaction is the matching of terms and conditions. Two distinct LCs for one transaction are made possible because of the underlying terms. Drawing on his experience with back-to-back credits in commodity financing, Singapore banker Barry Chin addresses mismatches, the associated risks, and in some cases, the reasons behind mismatches, and mitigating factors. As UCP600 does not mention back-to-back LCs, it is paramount that issuers exercise sufficient care in drafting such credits to ensure that they are workable and appropriate controls are in place. In the first article of his two-part series, Chin considers the unique nature of back-to-back credits and offers a step-by-step walkthrough of the LC format, including various scenarios regarding the description of goods.