

ABSTRACT

Letters of credit are an important finance instrument for international trade. They are especially significant in cross-border transactions where traders do not know each other. Despite the attractiveness of the process, by choosing letters of credit, international traders often have trouble. In particular, they find it difficult to meet the level of documentary compliance demanded by many banks. In turn, this increases the risk of non-payment for goods or services invested in and could have a profound impact on international trade patterns. The governing rules are not clear enough as to how strictly the doctrine is to apply. In addition, courts all over the world have not cured the deficiencies in the application of the rules. In fact, they themselves have added to the confusion by creating a myriad of controversial judicial standards that apply to similar mistakes in the presented documentation. This thesis is an investigation into these issues. In so doing, it attempts to find out what could reduce the inconsistent interpretations of the doctrine of strict compliance and thus enhance the attractiveness of the letter of credit. The analysis pays particular attention to those cases involving misspellings, discrepant descriptions of goods in commercial invoices, ambiguous or impossible letter of credit terms, and inaccurate data in presented documents. Among other things, the thesis reveals that courts have applied different standards to the matter of misspellings alone. As a result, banks have applied the strict compliance rule very rigorously to protect their own interests in case litigation would ensue. The flipside is sellers left with the risk of not being paid. The question arises whether this is reasonable given that only trivial mistakes may be a vitiating factor in the letter of credit transaction

ICC commission took many actions with a view to reduce the rate of the refusal. One of the essential methods to handle this issue is the adjustment of the main rules regarding the examination and rejection of (LC.) Accordingly, new UCP 600 modifies the compliance rule of examining documents. It transforms the "Original Compliance Rule" into the "Flexible Compliance Rule", it gives bankers more rights and freedom in the process of examining documents; additionally, it sets up much stricter standards of rejection for bankers; apart from that, bankers are obtained more options before determining rejection. Accompanying with the promulgation and implementation of the new version of the UCP, the aim of ICC has been accomplished to some extent. But it not provided rules to balance the rights of all parties.