

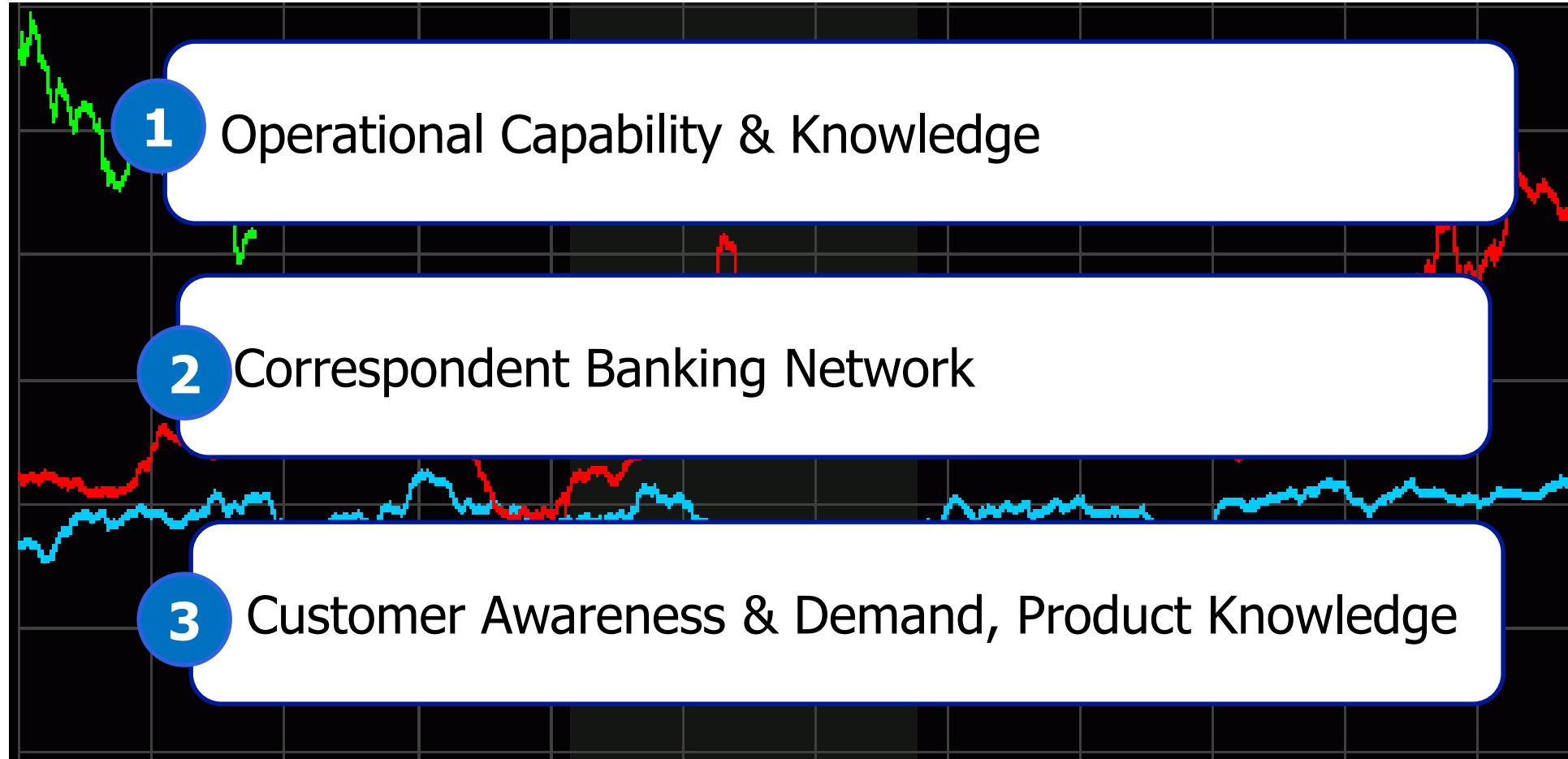
ADB Trade Finance Roundtable

Letter of Credit Relay

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Challenges: What's holding Pacific back?



Potential Solutions

- SWIFT LC Relay Service by Private Sector Bank
- LC Reissuance Service by Private Sector Bank
- Pool/Amalgamate Transactions Dependent on Correspondent Banks
- Establish Pacific Regional Trade Bank
- Subsidize Correspondent KYC/AML costs
- Foreign Banks operating in Pacific to assist

LC Relay Overview

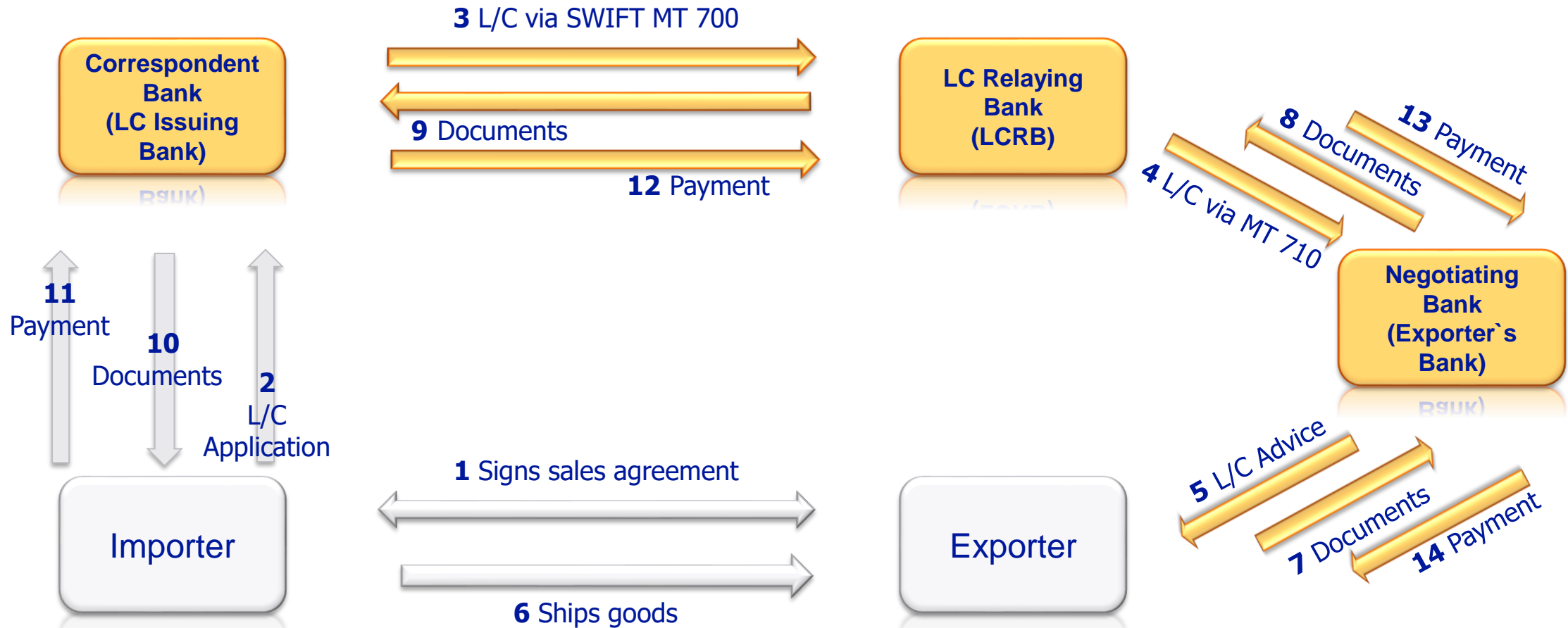
- Letter of Credit Relay is essentially an L/C advising and document examination service
- A correspondent bank directs its SWIFT MT 700 import L/C issuances to a LC Relay Bank (LCRB) SWIFT address, and LCRB will advise the credits to the listed advising bank (specified in field 57a) via their MT 710 (advice of a third party's documentary credit) message
- When the L/C drawing documents are presented to LCRB, it perform a complete and final examination, dispatch them to the issuing bank, and effect settlement upon the receipt of funds from the issuing bank
- If LCRB makes an error in the document examination that results in an actual loss for the issuing bank or its applicant, then LCRB will reimburse 100% of the loss up to an agreed cap per transaction
- L/C Relay is not re-issuance in the name of LCRB with the correspondent becoming the applicant bank
 - Since it is not a LCRB re-issuance, it will not require a credit facility on LCRB side to support every transaction
 - With re-issued L/Cs, there is a loss of visibility for the original issuing bank, and a potential loss of reciprocity

LC Relay Workflow

- The correspondent issues L/Cs and amendments to LCRB via SWIFT 700/701/707
- Specific wording incorporated into LC text stating the LC Relay structure and instruct advising bank to directly send all documents to LCRB instead of the issuing bank
- Drawing documents are presented to LCRB
- LCRB performs a final examination, notifies the issuing bank of the results, and immediately dispatches clean and discrepant documents to correspondent
- LCRB settles with beneficiary's bank after X business days' delay for clean drawings (to enable documents to reach the issuing bank), and upon the issuing bank's approval of discrepant drawings
- Funding is provided to LCRB by the issuing bank (LCRB is not advancing the funds)

LC Relay Workflow

Negotiating Bank deals directly with one Pacific Bank reducing Swift keys while servicing multiple Pacific banks` LC needs



Benefits of L/C Relay

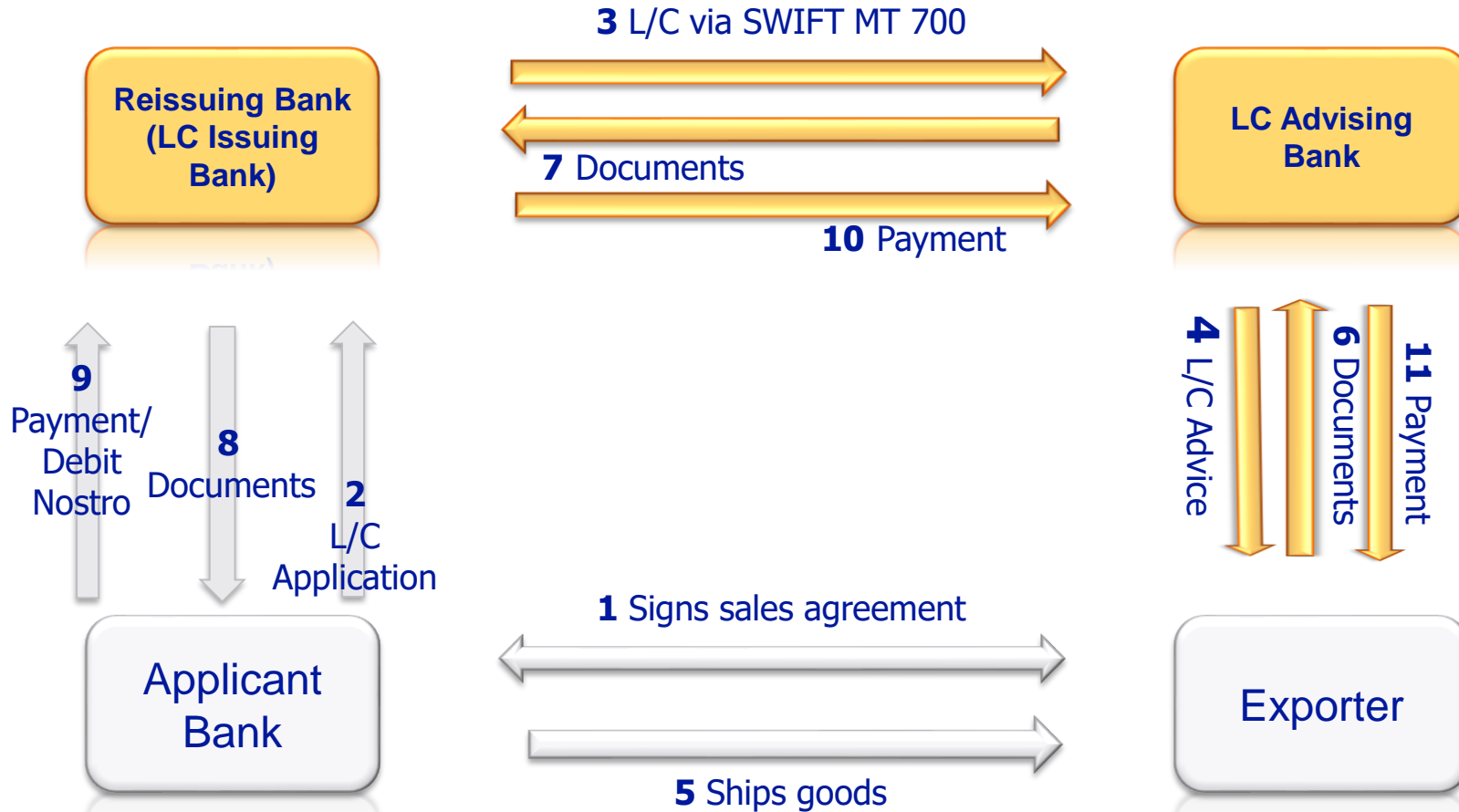
- One swift connection between LCRB and Negotiating bank can cover all Pacific LC needs
- The status of the L/C issuing bank is preserved
- LCRB reviews all transactions for workability and compliance
- No need to re-examine the documents by Issuing Bank as LCRB provides an indemnity for its examination
- Create critical mass to maintain channel for LC flows
- Minimize Swift key and KYC costs for negotiating banks

LC Reissuance

- Letter of Credit Reissuance is an outsourcing of Trade Operations including document examination service
- Applicant bank directs its LC Application to a LC Reissuing Bank SWIFT address. The Reissuing Bank will then issue a 2nd LC that mirrors the terms & conditions contained in the original LC. The reissuing bank will issue LC and send to correspondent bank via their MT 700
- When the LC drawing documents are presented to Reissuing Bank, it performs a complete and final examination, dispatch's them to the applicant bank, and debits nostro account of the applicant bank
- If Issuing Bank makes an error in the document examination that results in an actual loss for the applicant bank or its customer, then Reissuing Bank will reimburse 100% of the loss up to an agreed cap per transaction
- LC Reissuance is re-issuance in the name of Reissuing Bank
 - Reissuing Bank will require a credit facility or cash collateral from the Applicant Bank to support every transaction
 - There is a loss of visibility for the applicant, and a potential loss of reciprocity

LC Reissuance

Applicant Bank deals directly with one Pacific Bank reducing Swift keys



Next Steps

- TBD