FREQUENTLY ASKED QUESTIONS / FAQ

1. What is Standby Letter of Credit (SBLC/SLOC) ?

Standby Letter of Credit is a Bank guarantee in case of non-payment of commercial import or export transaction. It is an irrevocable documentary commitment separate from the Sales contract issued by the bank to the third party beneficiary and promising to pay on behalf of the originator a specific sum of money against delivery of documents satisfying the terms and conditions of the SBLC. It can be used for import and export transaction. This is a guarantee rather than a payment instrument. It protects the beneficiary against the risk of non-payment.

2. How to obtain a Standby Letter of Credit ?

SBLC can be obtained in two different methods.

a. Credit method

It is a loan obtained from the bank using a collateral asset or document in order to facilitate an International trade process. This method is only available in a few countries and specific banks and obtaining a SBLC under this method will be possible only for clients with strong credit history and clear banking records. For this service, the bank may charge an interest of 10% to 12% annually for the loan obtained or a service charge of 3% to 5%.

b. Block fund method

This is the most common and convenient method of obtaining a Standby Letter of Credit document. The originator deposits sufficient funds against the value of the International trade transaction and request the bank to block the funds as a collateral deposit and issue the Standby Letter of Credit instrument. For this service, the issuing bank may charge around 2% to 2.5% as bank charges to issue the Standby Letter of Credit.

3. How does the Standby Letter of Credit work ?

The Standby Letter of Credit is a bank guarantee document that protects the financial commitment between the exporter and the importer. When the trade transaction is completed and the importer fails to honor his financial commitment towards the exporter or the importer defaults the payment to the exporter, then the exporter can go to his bank(Beneficiary bank) and produce all the documents to prove the completion of trade transaction. The Beneficiary bank will make a claim to the Advising bank (Importer's bank) to honor the payment on behalf of its client by producing all the necessary documents that proves the completion of trade transaction. The Advising bank will advise its client (Importer) to produce evidence of making payment to the beneficiary's bank. If the importer fails to produce the documentary evidence or any proof of financial transaction to the beneficiary, then the Advising bank will pay the Beneficiary bank as per the commitment made in the Standby Letter of Credit instrument.

4. What is MT-103 ?

MT-103 is a SWIFT(Society for Worldwide Interbank Financial Telecommmunication) message format used for making payment. MT-103 SWIFT payments are known as international wire transfer or telegraphic transfer. It is a mode of making payment directly to a Beneficiary bank through wire transfer method. It is a one way transaction and completely irrevocable in nature.

5. What is LBMA price ?

LBMA is nothing but London Bullion Market Authorities. This is an organization that valuates global transaction of Bullion Gold (99.5% and above). This association operates as a Stock exchange for Bullion Gold trading across the globe and it determines the global value of the Bullion Gold based on the supply and demand of the particular day in the market. LBMA works from Monday to Friday. Saturday and Sunday, the price will remain the same as per the closing price of Friday. LBMA issues the price on troy ounce basis.

6. How to obtain LBMA price ?

There are various mobile applications that can be downloaded in every smart phone from the app store free of cost. Most of these applications are accurate.

7. How do we calculate price for Dore Gold bars using LBMA ?

The price for Dore Gold bars will be LBMA price adjusted based on the average purity % of the Dore Gold shipment. Purity % is nothing but the Gold content present in the Dore bars. LBMA price keeps fluctuating throughout the day. But the prices for Gold will be determined based on the LBMA value during the market closing time on the day of shipment. The LBMA price will be given for one troy ounce. One Kilogram of Gold consist of 32.15 troy ounce. Hence, we multiply the LBMA price given for one troy ounce by 32.15. Then the total value of one Kilogram will be multiplied by the purity%. This value is called LBMA adjusted as per purity%. And the adjusted LBMA price is the price of Dore Gold bars.

8. What is BBM (Bombay Bullion Market) price ?

Bombay Bullion Market price is the price of Bullion Gold determined for Gold trading in India. This price is used only for the trade within the territory of the Republic of India. BBM price is also considered the highest valuated price of Gold in the whole world. Because, the demand for Gold is very high in India and close to 22 % of the Gold produced across the globe is procured only in the territory of India.

9. What is the difference between LBMA and BBM price ?

The LBMA and BBM price have a very significant difference in its valuation. The difference between the LBMA and BBM price for 1kilogram of Gold is between US$ 6500 to US$ 7500, where the BBM price is higher than the LBMA price.

10. How do Indian buyers import Dore Gold bars to India ?

In India, there is a specific license given to certain Gold refineries to import Dore Gold bars into the country for the purpose of refining the Dore Gold to pure Gold (99+ % purity) and trade it within the country. This license is issued by BIS (Bureau of Indian Standard) and the law permits other smaller refineries and jewelries to import Gold into India through these licensed refineries. Hence, a client in India needs to approach these BIS licensed refineries both private and state owned in order to import the Gold on their behalf and clear the Gold from the airport customs of India.

11. *What is CIF pricing ?*

CIF stands for Cost, Insurance and Freight. This is a term used by exporters to indicate an all inclusive price to its international customer or importer that will include all the expenses related to the trade along with the cost of the goods. CIF will include the documentation charges, export tax, air cargo/freight charges, etc along with the selling price of the goods. The cost involved in clearing the goods in the port of destination will not be included in the CIF price as the CIF price is only till the goods reaches the final port of destination.

12. *How to have a waiver of VAT for Dore Gold imports in UAE ?*

United Arab Emirates has introduced Value Added Tax(VAT) for several commodities including Dore Gold bars less than 99% purity. The VAT for Dore Gold bars is 5% on the adjusted LBMA value. This is a huge financial burden on the buyers. But, there is a provision given in the law of United Arab Emirates to waive this VAT of 5% on the Dore Gold bars. The importer has to appoint any one of the Gold refineries in the country and also engage a security company for the movement of goods directly from the arriving airport to the refinery and obtain a engagement letter both from the security company and the refinery stating that the importer has appointed the security company to directly transport the goods from the airport to the refinery and the refinery will receive the Dore Gold bars and refine it to 99+% purity on behalf of the importer before handing over the goods to the importer. The importer is expected to produce these engagement letter directly to Dubai customs and apply for a waiver of VAT.