

CBE decision on LCs

On February 13, 2022, the Central Bank of Egypt (CBE) made a decision in line with the decisions of the Cabinet of Egypt banking regulatory action regarding the governance of import procedures and to complement the activation of the Advance Cargo Information System (ACI), with the aim of raising the quality level of goods imported from abroad, as well as the governance of the foreign trade system and the protection of industry national sovereignty.

The decision indicates that Egypt will only accept Letters of Credit (LCs), in the execution of import operations, which will be applied compulsorily as of 22.02.2022. An exception applies only to Multinationals, branches, and subsidiaries of multinationals in Egypt. Noting that documentary collection will be accepted for goods already shipped before the measure came into force.

According to this, the CBE directed all banks to work on the following:

- Reduce all commissions for Letters of Credit (LCs), in all banks to be close to the commissions for Inward Documentary Collections.
- Increase the existing credit limits for customers, and open new limits for new customers, proportionally to the import volume of each customer.
- Upon request, the required Letters of Credit (LCs) are provided to all clients.
- Banks must receive customer enquiries and concerns and promptly reply to them while removing any obstructions.

It shall be noted that there are some products that are exempted from the decree, and it includes wheat, medicines, vaccines and their raw ingredients, along with tea, meat, poultry, fish, oil, powdered milk, baby milk, fava beans, lentils, butter and corn imports. Furthermore, Parcel shipments and priority mail express shipments of up to \$5,000 or its equivalent in other currencies are also exempt from the decree.

Frequently asked Questions:

- # What is meant by branches of foreign companies and their subsidiaries?
- # Does the exception apply to companies indirectly owned by foreign companies?
- # If the subsidiaries of foreign companies are an Egyptian joint stock company that includes non-Egyptian shareholders, what is the shareholder's percentage in which we consider the company to be a subsidiary of a foreign company?
- # The importing company legal entity maybe an Egyptian joint stock company, but it is ultimate beneficial owner is foreign would it be considered a foreign company? Please clarify.

A: Subsidiaries are Egyptian companies affiliated with foreign companies Abroad, in which the percentage of the foreign partner's contribution is more than 50%, whether direct or indirect.

- # Regarding the exemption for foreign companies branches and their subsidiaries, what is the scope of implementation in case that the parent company is a foreign company, and the subsidiary company is an Egyptian joint stock company, and what is the classification of those foreign companies?
- # Foreign companies have been exempted - please confirm that import operations are intended from any of their approved suppliers and not on incoming shipments from subsidiaries / parent company only
- # As for the exempted companies, is there a condition to limit the import from the parent company only, or it can be from any other external supplier?

A: The exception is limited to the scope of import operations from the parent company and its groups only and the dealings of branches of foreign companies as well subsidiaries of foreign companies.

- # In the case that the foreign group owns less than 51% however they have management control over the Egyptian company would the exemption applies to them?

A: No, they would have to use letter of credit only.

- # What about the companies established particularly to import from the parent group on behalf of foreign companies operating in the local market, noting that these companies are subject to actual control by foreign companies?

A: If the ownership is more than 50%, they are exempted from the decision.

- # Do the subsidiaries include agents of foreign companies from Egyptian companies?
- # Are the authorized/ accredited agents of companies such as "car dealerships" considered among the exempted companies?

A: No, they would have to use letter of credit only.

- ✚ Are foreign companies that import through customs clearance companies or intermediaries exempted, where the documents are in the name of the foreign company, but the broker uses the import card to issue a form (4)?

A: Since the documents are in the name of the foreign company and that the import is within the scope of import operations from the parent company and its groups only, then the import process falls within the framework of the exception granted to foreign companies and their subsidiaries and can be done through cash against documents.

- ✚ In case the sister company/parent company imports from several countries and transfers documents to its subsidiaries in several countries, will it be required to open letter of credit for the sister/parent company?

A: The exception is for subsidiaries, namely Egyptian subsidiaries for foreign companies abroad, in which the foreign partner has more than 50% whether direct or indirect, and the import scope is from the parent company and its groups only.

- ✚ If free zone companies import in their favour (import from outside Egypt), do these instructions apply in such a case?

- ✚ As for the companies that work under the free zone system and their import processes undertaken through direct remittances without having to issue Form 4, will such transactions be carried out as usual, or do they entail also documentary letters of credit?

A: Any import or purchase for the local market from free zones in EGP or foreign currencies will be through documentary letters of credit. - As for the external free zone transactions, they will follow the regular measures already established prior to issuing the decision.

- ✚ In the case of the presence of a sister company to a free zone company and imports from it does it need letter of credit?

A: Transaction will be through only documentary letters of credit.

- ✚ Is it permissible to continue accepting cash against documents from companies of a private nature or that do not issue Form 4 (for example: petroleum companies / free zone companies / special economic zones)?

A: Transaction will be through only documentary letters of credit with an exception for border trade.

- ✚ There are goods stacked delayed in the ports (especially China) and shipping is carried out successively due to the lack of containers and their documents will be received after the date of the decision, will Form (4) be issued to them?

A: The Central Bank of Egypt needs to be provided with the details of each case individually.

- ✚ What happens if customer made an advance payment through cash against documents in part or in full before the issuance of the decision –but the goods have not been shipped, or will be shipped after the date of the decision?
- ✚ If customer has transferred part of the invoice amount in advance based on the terms of the contract and payment and has transferred instalments of the same invoice's but didn't ship until the date of the instructions, will the circulation of cash against documents be accepted?
- ✚ There are processes on our part in which customers have paid a partial advance payment before 13.02.2022 the customers request to complete the payment of the rest of the advance payment (the rest of the pro forma invoice) according to the terms of the pro forma invoice, before receiving the shipping documents. Shall we respond to the customers'?
- ✚ What about the down payment transfers issued by the bank's customers before the issuance of the decision shall they be considered as part of the credit value when the customer opens the letter of credit?
- ✚ Is there a grace period for the reconciliation of situations, especially for customers who have previously transferred advance payments for the import process?

A: If the advance payment is 100 % before the issuance of the decision, the import process can be completed through cash against documents according to the customer's request (actual implementation as of 22.02.2022) if the advance payment is partial payment and before the issuance of the decision, the import process is completed by opening a letter of credit with the remaining amount and the documents are in full value. (Example: 20% down payment paid, Letter of credit is opened with 80% and the shipping documents must be received in full value of the import process)

- ✚ What is the status of operations that will take place from February 14 to March 1 and will be shipped after February 13?

A: Effective implementation starting from 22.02.2022, to accommodate the shipments that were prepared before the issuance of this decision.

- ✚ In case a client requests transferring advance payments while undertaking to open credits later, will this be in compliance with the instructions issued or not?

A: Import processes will be implemented through documentary letters of credit and transfer of advance payments will be in accordance with the clients previous business methods already established prior to the issuance of the decision.

- ✚ In case bank customers request to transfer advance payments with a pledge to open letters of credit later - is it in line with the instructions issued or not?

A: Only letters of credit are accepted.

- ✚ Are Standby Letters of credit allowed?

- ✚ Are shipping documents accepted in case the customer is granted a facility for Standby Letters of credit?
- ✚ In the case of a fully covered 100% Standby Letters of credit, guarantees shipping documents are not enhanced, is this customer excluded in the adoption of Form (4) based on shipping documents received from the customer?

A: The Central Bank of Egypt needs to be provided with the details of each case individually.

- ✚ Does the decision apply to companies that import by Draw Back system?
- ✚ What are the release cases and temporary permissions for export customers, especially exporters of ready-made garments, to import many small components in preparation for exporting them as a final product?
- ✚ What is the status of re-export companies, where the import process does not require customs release or issuance of Form (4)?
- ✚ In the case of the release of the temporary permit system where the customer imports through cash against documents to carry out manufacturing operations as an added value on the imported goods and to re-export them again there is no final release in such a case, will the circulation of cash against documents be accepted?

A: Exempted and shipping documents are accepted.

- ✚ Can an exporter be exempted from the letter of credit requirement when importing required raw materials? This is because sometimes these raw materials are contracted through the exporter's customers, and the cost of import credits and trading will be charged to customers, as it is a local demand that has not been ordered from the raw material supplier, which affects the exporter's already small profit margin, and the exporter does not have a letter of credit.

A: Excluded in case of temporary permitting draw back and shipment documents are accepted.

- ✚ Are the enhanced collection documents/ avalized from the bank treated as letters of credit specially that collection documents have the same nature as the general obligation?
- ✚ What is the position of the shipping documents exported by Avalized system ?

A: Avalized collection documents aren't treated as letters of credit and LCs should be opened.

- ✚ Are government entities excluded from the decision of February 13, 2022?
- ✚ Are sovereign entities and subsidiaries that do not extract Form (4) are excluded where customs release is done without the need for Form (4)?
- ✚ In cases where the customer imports for the benefit of sovereign entities, which in turn do not issue Form (4), will the transfer request be executed without Letter of credit issuance?
- ✚ What is the status of government companies, sovereign entities, companies and their affiliates, especially in the case of advance payment, which includes, for example, national projects such as Takaful and Karama, new and renewable energy projects and new cities?

A: Only letters of credit are accepted.

- ✚ In cases of importing production lines, spare parts and the like for special/private use and clearance by using Form 6, where goods are not cleared and without Form 4 endorsement, will the transfer request be implemented?

A: Excluded and documents of shipment will be accepted

- ✚ To what extent does the decision apply to production requirements considering their importance?

A: Only letters of credit are accepted.

- ✚ Electronic goods assembled in the ARE are composed of a local production part + an imported foreign production part, most often transaction is through documents of collection upon the principle of good faith between the two parties

A: Transaction will be through only documentary letters of credit.

- ✚ Some customers have been informed about the import operations registered on the CargoX system. Don't need letters of credit?

A: The CBE should be notified of the details of each case individually

- ✚ Does the decision include trade transactions registered on Advance Cargo Information Declaration (ACID) System even if they are through cash against documents?

A: Yes and Only letters of credit are accepted.

- ✚ With reference to the following points for granting customers credit finance (letter of credits and refinancing) covered 100% according to the following:

1. The possibility of deleting the following documents from the covered financing transaction:

A- Customer's request

B - The endorsements of the banks and the related companies signed by those who have the right to sign on behalf of the company

C - Certificate from a chartered accountant with tax and insurance position

D - a valid tax card

C - The company's contract and its amendments / company's profile or investment profile (incorporation, amendments - statement of shareholder ratios)

H - A letter stating the following: number of employees, company sales, total fixed assets, total current assets.

2. Not to perform a credit inquiry, the consolidated credit statement, and the I-score for the company and the shareholders.

- ✚ With regard to the proposed facilities to support companies in switching to use letters of credit within established limits and credit facilities from the banks, please explain whether

is it possible to approve the provision of such facilities depending on the study of customer behaviour with their suppliers during the transactions with the bank and before completing some of the special requirements of credit grants, (including field inquiry, Associated parties form , the original of a recent commercial register..... Etc.). And the extent to which this is consistent or inconsistent with the credit granting regulatory instructions for the purpose of opening letters of credit without cash cover and/ or partial cash cover.

- ✚ Is it required to have all requested documents before granting finance in case of opening letters of credit with full cash cover?
- ✚ It is proposed to issue special procedures to facilitate the granting of letters of credit limit to customers to go with the nature of small merchants and to ensure the rights of banks in the event of breach of obligations by merchants if the letter of credit is not covered.
- ✚ Based of the increase in the number of new credit customers significantly as a result of the replacement to letter of credits, Will there be simplified procedures for normal conditions for example:
 - Will a full inquiry with a field visit be implemented or just the combined statement, I-score and bankruptcy especially in the first period in grants also in the event that the results of the Combined Statement are negative, such as the fact that the customer is stopped from paying by one of the dealing banks or execution?
 - Endorsement procedures for the Associated parties, which require many documents such as " commercial register – companies profile-establishment reference
 - Financial statements - national ID cards for board members, shareholders above 10% and joint partners".
 - Is the letter of credit fully covered in the cash cover account (not included in deposits or any other cash security) to be recognized.
 - Will the fully cash-covered letter of Credit be treated in the same currency as the fully covered Credit but in Egyptian pounds.
- ✚ How will the Obligor Risk Rating be determined, and the required provisions be calculated? Will this be based on specific instructions from the Central Bank, or will it be determined according to the Bank's decision?
- ✚ Regarding the monthly declarations required from the Central Bank of Egypt and I-Score regarding clients obtaining credit facilities, will there be an exceptional treatment for these clients, or will they be declared considering the usual procedures as there may be difficulty in some cases, due to the need to complete certain documents from clients (for example: declaration of related parties, declaration of dealing with banks / identification documents for shareholders / etc.), which may conflict with the concept that credits are opened without requiring the client to provide any documents other than business process documents

A: A risk guarantee programme will be used with Credit Guarantee Company in accordance with the letter of Mr. Deputy Governor No. 55 of 20 February 2022 in case the client does not enjoy credit facilities on the level of the banking sector

- ✚ Is the credit covered in full will be granted interest on the amount of insurance?

A: Each bank is entitled to make its own decision in the matter.

- ✚ In the case of receipt of collection documents on a subsequent shipping date to the decision- will the documents be rejected and returned to the correspondent bank with a statement if there is a period to correct the situation, noting that there are some shipments contracted according to previously specified shipping schedules as well as the time difference between us and some countries?
- ✚ What is the status of what has been shipped / will be shipped after the issuance of the decisions and the goods in the ports?
- ✚ What will happen to collection documents received with a shipment date after the issuance of the decision would they be rejected with a clarification that it is in accordance with the instructions of the central bank?
- ✚ Any collection documents received by the bank and the date of shipment shown on the bill of lading is after the date of issuance of the decision will it be immediately returned to the sending bank?

A: If the shipment is made before February 22, 2022, the documents are accepted and the import process is carried out through collection documents, but if the shipment is made as of February 22, 2022, the central bank will need to be provided with the details of each case separately.

- ✚ Is there a specific commodity excluded from the cash cap?
- ✚ Are there any changes in cash cover/ cap instructions?

A: The instructions issued by the central bank in this regard have not been changed, and the decision is only for adjusting the nature of import operations.

- ✚ Will Letters of credit opening commissions be applied to former clients dealing with them through collection documents as collection documents have very low commissions against opening LCs commissions?

A: The banks were directed to reduce all the commissions of letters of credits that will be opened to their customers who have a history of dealing with imports through collection documents only and from the same bank to be with a close percentage to the commission of collection documents.

- ✚ To what extent will the banks commit to the instructions to obligatory collect of a cash cover of 100% of the import operations that are carried out under letters of credit opened for importing goods for the commercial companies or government agencies (According to the CBE periodic instructions No. 512 issued on December 21, 2015 and its amendments No. Issued 31 on February 22, 2016), which states: Commodities excluded from these instructions, including the import of basic food commodities, medicines, serums ... etc.

A: The instructions issued by the central bank in this regard have not been changed, and the decision is only to modify the nature of import operations, and banks must comply with those instructions.

- ✚ In the case of import operations carried out under the system of open accounts between Egyptian companies and their foreign branches is it acceptable to work with collection documents/direct transfers (like foreign companies that have branches/subsidiaries within the Arab Republic of Egypt) or letters of credit are needed?

A: Only letters of credit are accepted.

- ✚ What is the correct procedure in case we receive instructions from the customer requesting an amendment to increase the amount of the collection balance working via collection documents which requires the bank to issue Form 4 for the increased amount?

A: The request for the increase shall be rejected and a separate letter of credit is opened for the value of the increase.

- ✚ Is it permissible to exclude companies owned by legal entities established abroad by Egyptians?

A: Only letters of credit are accepted.

- ✚ What is the status of non-commercial transfers such as shipping expenses, insurance, software for example?
- ✚ As for the transfers for the purchase of software programs, are they implemented as transfers without following the submission of letters of credit because they are received via the internet as currently followed or will they be stopped? (Noting that they cannot be implemented as a letter of credit according to their nature)

A: It is carried out by direct transfers.

- ✚ Is air freight considered within the definition of courier/ express mail?
- ✚ What is meant by shipments received by express mail according to the Federation of Egyptian banks press release of and does air freight fall under this item

A: Air freight is not necessarily express mail

- ✚ Does a limited liability company established with the purpose of importing veterinary vaccines for a foreign company founded in Egypt have the right to deal on the basis of documents with fees instead of documentary letters of credit, since the Investment Law does not allow the companies with more than 51% non-Egyptian ownership to issue an import card? What is the position of human corneas from the decision?

A: Vaccines, serums and human corneas are excluded.

- ✚ Regarding the goods excluded from the decision (according to the press release issued by the Federation of Egyptian banks)
 - Are live livestock and live poultry excluded from the decision?
 - Are veterinary drugs excluded from the decision as well as their chemicals
 - Are chemicals related to agricultural activities excluded from the decision?
 - Are agricultural seeds excluded from the decision?

A: Live livestock, live poultry, veterinary drugs are excluded from the decision, as for chemicals relating to Agricultural activities and agricultural seeds they are not excluded from the decision and only letters of credit are accepted.

- ✚ In the case of partnership between customers in one bill of lading for the import of raw materials or foodstuffs and each of them to adopt its part to pay and adopt Form (4), will they open more than one letter of credit with one bill of lading?

A: Only letters of credit are accepted.

- ✚ What is the position of the annual contracts with suppliers abroad, which were made before the issuance of the decision, which includes a monthly or quarterly quota to be issued by the external supplier by means of shipping documents with the facilities of suppliers, whether confirmed or not confirmed for local customers will the documents be accepted for the current period or the end of the annual contract (e.g. SABIC and buroj)?

A: Only letters of credit are accepted.

- ✚ What is the status of importing companies (commercial/industrial) with a legal structure (Egyptian joint stock company) and owning exclusive distribution contracts or franchise agreement for foreign companies? Is it possible to continue using documentary collection?

A: Only letters of credit are accepted.

- ✚ What is the reference document in the case of import for multinational corporation is it commercial invoice or Bill of Lading? where it is possible that the beneficiary is the parent company while manufacturing from another origin.

A: Limited to the name of the importer in the documents (the parent company or its groups only)

- ✚ With regard to import operations taken through a third party company for import, will the exception of the foreign company apply to such operations?

A: If the documents are in the name of the parent company or its groups only.

- ✚ In the case of import for private use (Form 6) is the import continued through the collection of a document or should a letter of credit be opened?

A: Excluded and documents of shipment will be accepted.

- ✚ What is required in import operations for government agencies funded from abroad (IFC / EBRD / AFREXM) in return for a risk guarantee? Or in the case of our bank as a local agent

A: There is no relationship between financing and the payment mechanism.

- ✚ Regarding the instructions that banks should reduce the commissions of letters of credit to be like the commissions of collection documents, please clarify if this is meant to be an issue commission only as there are fees (not commissions collected by the bank itself) related to the issuance of L / C which includes, for example:

- Swift issuance expenses
- Courier expenses
- Relative stamp tax
- Insurance fees for issuing insurance policy through cargo insurance companies

These expenses are reimbursed to other parties in the framework of issuing the letter of credit and in case of non-payment of these expenses by the customer, the bank will bear these expenses on behalf of the customer, which will incur a very high cost to the bank. Please kindly clarify that the central instructions are limited to the issuance commission other than the issuance expenses obtained by other parties.

A: The total commission should not exceed what was applied to the same customer in the same bank on collection documents.

- ✚ Is there a body that determines which goods are imported or not?

A: No

- ✚ Is there a limit to express mail?

A: No

- ✚ In case a certified agent in Egypt of a foreign company requests cargo substitution in the context of the guarantee on the cargo imported from such foreign company, will the decision apply?

A: Excluded and documents of shipment will be accepted.