The SBLC, explained simply

What it is, what it costs you, and what happens if something goes wrong

Most sugar deals do not fail on price. They fail because the buyer never understood what he was being asked to sign, asked his bank late, and lost three weeks. This guide exists so that does not happen to you. Read it before you talk to your bank.

1. In one sentence

A Standby Letter of Credit is your bank telling the seller: **“if this buyer does not pay, I will.”** That is all it is. It is a promise, not a payment. No money is sent to the seller when it is issued, and in a deal that runs normally it is **never used**.

> **The one thing to remember:** you pay for the sugar when it arrives, by bank transfer, against documents. The SBLC sits in the background the whole time and is never touched.

2. It is not a documentary L/C — and the difference matters

Buyers confuse the two constantly, and their banks then quote them for the wrong product.

DOCUMENTARY L/C	STANDBY L/C (SBLC)
A **payment** instrument. The bank pays the seller each time documents conform.	A **security** instrument. The bank pays only if you fail to pay.
Used at every single shipment. It is the payment channel.	Issued once, for the agreed cover. Normally never drawn.
You are billed on every operation.	One issuance cost, then nothing unless it is called.
Governed by UCP 600.	Governed by ISP98 (ICC Publication 590).

3. What you actually immobilise

This is where buyers over-estimate the effort, and walk away from deals they could have done. The 20% is calculated on the **face value of the SBLC** — that is, on the months you actually cover: three, four or six monthly shipments. **Not on the total contract.** And it is **your** bank that holds it, in your own account. Not the seller’s bank, not a third party, not us. Nothing leaves your institution.

> **Worked example.** A contract of 12 monthly shipments of 12,500 MT at USD 331 / MT. You cover 6 months, so the SBLC face value is 6 × 12,500 × 331 = **USD 24,825,000**. You block 20% of that — **USD 4,965,000** — in your own bank. You do **not** block 20% of the full year, and you do not send a single cent to anyone.

4. Two ways to get the instrument issued

CASE 1

You already have a line with your bank. Your bank issues the MT760 itself. You block 20% of the cover and pay your bank’s own issuing fees. Cheapest route, and the fastest when the line already exists.

CASE 2 **You have no line, and the instrument is leased.** A first-tier bank issues it on your behalf. That costs 8 to 10% — and **it is already included in the price per metric ton** we quote you. Nothing is added afterwards. The per-ton price on our pricing grid is what you pay.

If your own bank offers you better terms than the market, take them. It lowers your cost, it changes nothing on our side, and our price stays exactly the same.

5. Which bank is on the other side

This is where most sugar transactions collapse: the buyer is asked to send an instrument to a bank nobody can verify, in a jurisdiction with no practical recourse. We do not work that way.

The instrument is handled by **HSBC United States** — a top-ten global bank, under US law. Your compliance department can verify it in a minute, and if anything goes wrong you have a real forum to bring it to. For most of our buyers, that is the single reason the file gets approved internally.

6. How long it really takes

Your bank approves the line	**The long part.** Depends entirely on your bank and your file. Start it in parallel with the LOI — this is where weeks are lost.
Invoice naming the beneficiary	Issued by us once the SPA is signed
Issuance and transmission of the MT760	3 to 7 days
Seller’s performance bond in return	Within 72 hours of acceptance
First shipment	35 to 50 days after that

7. What happens if someone does not perform

YOU If you do not pay for a delivered shipment, the seller presents a written demand, a statement of default and the unpaid invoice. The SBLC is drawn **for that amount only** — not for the whole contract.

THE SELLER If the seller does not ship, the **2% performance bond** his bank issued in your name is called. The contract’s penalty clause then applies: 2% of total contract value, payable within fifteen business days, with interest at 1% per month, and ICC arbitration if it is not paid.

Neither side can walk away without cost. That symmetry is the whole point of the structure — and it is why the producer accepts to reserve tonnage for you.

8. Five questions to ask your bank, today

1. Can you issue a Standby Letter of Credit by SWIFT MT760, subject to ISP98?
2. What collateral do you require — cash deposit, credit line, pledge?
3. What is your issuance fee, and is it a flat fee or a percentage?
4. How long from instruction to transmission, once my file is complete?
5. Can you issue a Bank Comfort Letter or RWA now, authorising bank-to-bank confirmation?

Question five matters more than it looks: the BCL or RWA is what lets the procedure start before the instrument itself exists.

WHAT THIS DOCUMENT IS

A plain-language guide, written to save you time with your bank. It is not legal or financial advice, and it does not replace the Sale and Purchase Agreement or your bank’s own terms. Figures are indicative and follow the pricing grid in force. Have every commitment reviewed by your counsel and your trade-finance bank before signing.