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Bruce J. Leuzzi's law practice is focused on commercial real estate transactions: acquisition and sale of properties (including office buildings, loft buildings, multi-family buildings and ground leases), ground leases (representing landlords and tenants), acquisition and sale of development rights, leasing (representing landlords and tenants, including office leases, loft leases and retail leases), and financing (representing borrowers in financing and refinancing, and construction financing).

Bruce was admitted to the New York State Bar in 1989.

I. **Security:**

(i) **Why?**

- (a) Generally, it is “security for the faithful performance and observance by Tenant of the terms, provisions and conditions of this lease” (REBNY lease form).
- (b) It can also or only be security for limited purpose(s) – fixed rent; certain monetary terms; all monetary terms; certain non-monetary obligations (completion of alterations, removal of alterations).
- (c) It can be a complement to a “normal” security deposit, tailored to a specific obligation of the tenant that the landlord is specifically concerned about. For example, a completion guaranty to secure a tenant’s obligation to build-out a space, or a “good guy” guaranty to incentivize the tenant to surrender the space without a fuss if it can’t pay the rent and enable the landlord to quickly and painlessly obtain the premises from the tenant without having to expend unrecoverable sums and significant time utilizing the legal process.
- (d) Can also be required at a later date if warranted, e.g., security if the tenant seeks to make a significant alteration or contest a law.

(ii) **What?** Amount (unless legally limited to 1 month - see rent regulation discussion below) and/or type usually handled in advance as part of the business negotiations. Depends on strength of tenant and strength of landlord/marketplace.

- (a) Generally, can consist of all or any of the following: cash, irrevocable standby letter of credit (“**ISLOC**”), or guaranty. There are also other types for specific circumstances, e.g., bonding tenant’s work or a mechanic’s lien arising out of tenant’s work.
- (b) Security can be altered during the term per a fixed schedule linked to a tenant’s good conduct benchmarks. For example, if no Default/Event of Default occurs and rent has not been paid late, (cash) security will be reduced by the following amount(s) on (each of) the following date(s): on _____ by \$_____ to \$_____; on _____ by \$_____ to \$_____; and on _____ by \$_____ to \$_____.
- (c) Can be supplemented if certain conditions warrant, and tailored to those conditions. For example, if the tenant seeks to make particularly expensive improvements, the landlord may require additional security (e.g., a completion guaranty or additional cash security) to ensure lien free completion, or, if the tenant has made an improvement that is particularly expensive to remove at the end of the term and the tenant is obligated to remove that item at the end of the term, the landlord may require specific security to assure itself that that item will be removed at the end of the term at the tenant’s expense.
- (d) Can be increased for the balance of the lease term in certain circumstances, for example, if the lease is “Assigned”, if a check bounces, or if a “Default” occurs.
- (e) Generally, residential tenants cannot be required to pledge their personal property as security for rent (RPL §231).
- (f) “The amount of a security deposit for a rent regulated apartment is generally limited by law to one month's rent. It is unlawful for the owner to ask for an additional amount of money from the tenant, guarantor or third party. If two months' security deposit was

collected from a tenant by the owner when the apartment first came under rent stabilization, and the same tenant is still occupying the apartment, the owner must refund to the tenant any additional security deposit which exceeds one month's rent when the tenant reaches the age of 65, or receives Social Security disability retirement benefits or SSI benefits. The next rent stabilized tenant cannot be required to deposit more than one month's rent as security deposit. . . . When a lease is renewed at a higher rental amount, or the rent is increased during the term of the lease, the owner can collect additional money from the tenant to bring the security deposit up to the new monthly rent. Even though a tenant may be exempt from paying a lease increase because of his or her Senior Citizen Rent Increase Exemption (SCRIE), (See Fact Sheet #21, Special Rights of Senior Citizens), or Disability Rent Increase Exemption (DRIE), (See Fact Sheet #20, Special Rights of Disabled Persons), the tenant must still pay the increased security." NYS DHCR Fact Sheet No. 9: Renting an Apartment - Security Deposits and other Charges.

(iii) When can the landlord use it?

- (a) Subject to negotiation. For "typical" security - if there is a breach (small "d" default), or an Event of Default (defined term – after notice and failure to cure (if any) has expired).
- (b) For residential, "(a) landlord may use the security deposit as a reimbursement for any unpaid rent, or the reasonable cost of repairs beyond normal wear and tear, if the tenant damages the apartment." Tenant's Rights Guide, Office of the NYS Attorney General.

(iv) Must the tenant replenish the security?

- (a) If it's cash or an ISLOC, make sure that the lease states that the tenant has to replenish any security that has been used by the landlord, and that any payment due is additional rent.
 - 1. The landlord can, following the terms of the lease, either bill the tenant for a payment the landlord has made or deduct the amount from security. In the latter case, make sure that the tenant has the written obligation to restore any applied security.
 - (1) REBNY – All 3 leases state that "Tenant has deposited (the security)". The tenant has therefore satisfied the fixed obligation to deposit the security and does not have a continuing obligation to keep the security at that amount if the landlord applies some or all of it. The newest forms (04) specify that the tenant's failure to redeposit applied security is a default; older Store and Office Lease forms do not. Fix this with a rider to the Store and Office form. Without the security replenishment requirement, the landlord should leave the security alone and bill the tenant for the amount due as additional rent, unless the tenant is broke.

(v) When must the landlord return security?

- (a) At the end of the lease or a reasonable period of time after the term ends, less any lawful deduction. Reasonable means 21 – 45 days. Like all things reasonable, look at the circumstances. If there are real surviving obligations, such as existing lawsuits, indemnity issues, insurance issues, environmental issues, and condition of premises issues, landlord has reason to hold on to the security, or at least some of it. Or as the lease specifies.

- (b) If an ISLOC, if it has expired, then the landlord cannot draw on it.
- (c) If Guaranty, the Guarantor should request the original.

II. **Cash vs. Irrevocable Standby Letter of Credit vs. Guaranty. Can be used individually or in combinations.**

(i) **Generally**

- (a) GOL §7-105 applies to “a sum of money or any other thing of value” deposited with the (sub)landlord “as security for the full performance by such tenant or licensee of the terms of his lease or license agreement.”
 - 1. It requires that the seller/assignor “at the time of the delivery of the deed or instrument or assignment or within five days thereafter, or within five days after the receiver shall have qualified, deal with the security deposit as follows:” “(t)urn over” to the grantee or assignee “the sum so deposited . . . and notify the tenant or licensee by registered or certified mail of such turning over and the name and address of such grantee, assignee, purchaser or receiver.” GOL §7-105(1).
 - 2. If the transferor turns over the “amount of such security deposit”, it is “relieved of and from liability to the tenant or licensee for the repayment thereof,” and that obligation becomes the transferee’s obligation. GOL §7-105(2). “The provisions of this section shall not apply if the agreement between the landlord and tenant or licensee is inconsistent herewith.” GOL §7-105(2)
 - 3. Violation of GOL §7-105 is a misdemeanor. GOL §7-105(3).
- (b) Look also at GOL §7-107 (Liability of a grantee or assignee for deposits made by tenants upon conveyance of rent stabilized dwelling units), GOL §7-108 (Liability of a grantee or assignee for deposits made by tenants upon conveyance of non-rent stabilized dwelling units), and GOL §7-109 (Commencement of a proceeding or action by the attorney general to compel compliance).

(ii) **Cash** – the landlord should follow the rules and hold the security correctly as the failure to do so could result in the tenant obtaining the security before the term ends.

- (a) It’s the tenant’s/depositor’s money (including interest earned on it), must be held in trust by the landlord, and may not be commingled with the landlord’s money. GOL §7-103(1).
- (b) If the landlord deposits the security in a banking organization, the banking organization must have a place of business in NY State. The landlord must notify the tenant of the name and address of the banking organization, and the amount of the deposit, **after** it makes the deposit (so lease provision stating all of this information may not suffice since typically the lease is signed before the security is deposited). GOL §7-103(2).
- (c) **If** the security is placed in an interest bearing account, landlord may collect an administrative fee equal to 1% of the security annually “in lieu of all other administrative and custodial expenses”. The balance of the interest is the tenant’s/depositor’s money, and is either held in trust for that party until repaid or used, or paid to that party annually. GOL §7-103(2).
 - 1. **But**, if the security is for the rental or property containing 6 or more family dwelling units, “the landlord shall deposit the security in an interest bearing account in a banking organization within the state which account shall earn interest at a rate which

shall be the prevailing rate earned by other such deposits made with banking organizations in such area.” GOL §7-103(2-a).

2. **What if** the interest rate on the interest bearing account is less than 1%? Can the landlord take the interest the bank pays plus some of the security principal as the administration fee and obligate the tenant to replenish the security to the extent that the landlord has applied it for the 1%? Statutory language does not prohibit this. Not sure a landlord would want to risk this, though.
- (d) “In the event that a lease terminates other than at the time that a banking organization in such area regularly pays interest, the person depositing such security money shall pay over to his tenant such interest as he is able to collect at the date of such lease termination.” §7-103(2-b)
- (e) Cannot overemphasize that the cash is placed “in trust”. It certainly is illegally converted if the security is comingled or not segregated, and subject to immediate recovery by the tenant unless the landlord cures before the tenant seeks to obtain the security. The landlord cannot cure this if the attempt to undue the comingling occurs after the expiration of the term and the vacation of the premises by the tenant. *See McMaster v. Pearse*, 804 N.Y.S2d 640 (Civ. Ct. 2005). This case, in footnote 2, states the following: “(i)f the tenant remains in possession and has not sued to recover the deposit, a landlord has the opportunity to cure (Milton R. Friedman, *Friedman on Leases* § 20.4 [Nature of Security Deposit — Statutes], at 1293 [4th ed, PLI 1997] [“Commingling by landlord is a conversion, which gives tenant an immediate right to recover the deposit without offset by reason of any claim by landlord. Landlord’s right to the security is revived if the comingling ceases before tenant brings an action to recover the deposit. But segregation after expiration of the term and vacation by tenant is held too late for such revival”])
1. What happens if the Landlord does not advise the tenant of the name and address of the banking organization, and the amount of the deposit, after it makes the deposit?
- (f) The tenant cannot waive the requirements of GOL §7-103. GOL §7-103(3).
- (g) Get a W-9 if placing it in an interest bearing account.
- (iii) **Irrevocable Standby Letter of Credit (ISLOC)**
- (a) **General Overview of Letters of Credit.**
1. Defined in UCC Art. 5 as well as in the UCP and ISP (see below). Three (3) basic parties: an **applicant** (the party requesting the letter of credit – typically the tenant in a commercial lease) applies to an **issuer** (the party who issues the letter of credit – often a bank in a commercial lease) who undertakes to pay the **beneficiary** (the person entitled to payment under the ISLOC – typically the landlord in a commercial lease). Three agreements – between applicant and beneficiary (lease), applicant and issuer (reimbursement agreement), and issuer for the beneficiary (ISLOC, beneficiary does not sign an agreement with the issuer).
 2. 2 Basic Types – Commercial Letter of Credit and the Standby Letter of Credit.
 - a. The **Commercial Letter of Credit** is the **expected source of payment** in a transaction.

- b. The **Standby Letter of Credit** acts as a **back-up or guaranty** if the applicant does not fulfill a separate obligation located in a different agreement (e.g., a commercial lease or lease guaranty).

(b) **Two (2) Fundamental Principles of Letters of Credit.**

1. **Independence.** The ISLOC is independent of the contract that brought about the requirement for the letter of credit (e.g., the commercial lease) and the agreement between the applicant and the issuer (e.g., a reimbursement agreement). The ISLOC is to be paid per its terms regardless of what is happening under any of the other agreements. For the ISLOC's purposes, if the beneficiary demands payment per the terms of the ISLOC, the issuer automatically pays it without further inquiry. Any problems or litigation are handled after the payment is made under the ISLOC, not before. UCC Section 5-103(d) (Scope). ISP Rules 1.06(c) (Nature of Standbys) and 1.07 (Independence of the Issuer-Beneficiary Relationship). See also footnote 19 to the ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement.
2. **Strict Documentary Compliance.** If the beneficiary strictly follows the ISLOC's requirements for payment, the issuer will pay the beneficiary – basically, present **what** the ISLOC tells you to present, present it **how** the ISLOC tells you to present it, present it **where** the ISLOC tells you to present it, and present it **by the date** the ISLOC tells you to present it by. The obligation to pay does not arise otherwise. It's supposed to be mechanical – if the beneficiary demands a payment per the ISLOC's requirements, the issuer pays it. Problems typically arise when the beneficiary demands payment right before the ISLOC's expiry date and the demand does not strictly comply with the ISLOC's requirements. UCC Section 5-108 (Issuer's Rights and Obligations). ISP Rule 4.09 (Identical Wording and Quotation Marks).

(c) **Irrevocable Standby Letter of Credit. A Letter of Credit is irrevocable and not transferable if it is silent** – it must state it is revocable by the issuer for it to be revocable, and it must state it is transferable by the beneficiary for it to be transferable. UCC Section 5-106(a) and 5-112 (note 5-113 – Transfer by Operation of Law); ISP Rule 1.06(a) and (b) and see footnote 7 to ISP98 Form 1 Model Standby (ISLOC) Incorporating Annexed Form of Payment Demand with Statement.

1. **Irrevocable** - all parties to the ISLOC (issuer (typically a bank) and beneficiary (typically, the landlord) must agree to changes.
2. **Standby** - acts as a guaranty or security if a payment is not made (a default occurs), as opposed to being the method payment is made (which is the case for a commercial ISLOC).
3. **Letter of Credit** - issuer (typically a bank) promises it will pay the beneficiary specified in the ISLOC (typically the landlord) a certain amount of money within a certain time period after a request for the money is made; the bank's credit is substituted or supplemented for the applicant's (typically, the tenant's).

(d) **Pro's and cons for the tenant.** Better use of cash (tenant's return on the cash security sitting with landlord is paltry compared to its return on the same cash if it invests that cash in its business; landlord takes a 1% administration fee on the cash). **But**, they are not free, generally require a Reimbursement Agreement between the issuer (e.g., a

bank) and the applicant (e.g., a tenant) and may require posting collateral; logistical challenges – e.g., keeping track of its location and its expiry date.

- (e) **Pro's and cons for the landlord.** Substitutes/supplements a credit worthy party for the tenant; it is supposed to get around the bankruptcy limit on recovery of damages that cash security does not. **But**, the applicant (tenant) and the issuer (bank) might want to make it harder to get the cash by adding a layer of requirements to draw on the ISLOC in the ISLOC in addition to those in the lease; it is uncertain, at best, if it is free of the bankruptcy cap on damages; logistical challenges – e.g., keeping track of its location, its expiry date, the issuer's financial rating (e.g., "(o)nce a bank is in receivership, the FDIC as receiver may reject undrawn standby ISLOC's as burdensome contracts").¹

- (f) **Law.** Interplay of UCC Section 5, and either the Uniform Customs and Practice for Documentary Credits published by the International Chamber of Commerce, 2007 revision, ICC Publication No. 600 ("**UCP**"), or (b) International Standby Practices (endorsed by the ICC which designates it ICC Publication No.590) ("**ISP98**" or "**ISP**"). Both the UCP and the ISP are copyrighted, you have to buy them. The ISLOC should state which of the UCP or the ISP the ISLOC is subject to; they are not applicable – do not have the force of law – unless they are incorporated into the ISLOC.

1. The ISP is more preferable since it applies specifically to standby letter of credits.²
2. UCC Section 5-116(c) allows UCP or ISP to be incorporated into the ISLOC, states UCP/ISP governs if there is a conflict between the UCC and UCP/ISP "except to the extent of any conflict with the nonvariable provisions specified in" UCC Section 5-103(c). The nonvariable provisions are:
 - a. 5-103(c), i.e., which provisions of UCC Article 5 are nonvariable;
 - b. 5-103(a) and (d), i.e., the scope of Article 5 and the independence principle discussed above;
 - c. 5-102(a)(9) and (10) —102. i.e., definition of issuer and letter of credit;
 - d. 5-106(d), i.e., expiration of perpetual letter of credit or letter of credit that does not have an expiry date;
 - e. 5-114 (d), i.e., "issuer or nominated person has no obligation to give or withhold its consent to an assignment of proceeds of a letter of credit, but consent may not be unreasonably withheld if the assignee possesses and exhibits the letter of credit and presentation of the letter of credit is a condition to honor."
 - f. To the extent prohibited by 1-302, Titled Variation by Agreement – subsection (b) notably states that "The obligations of good faith, diligence, reasonableness, and care prescribed by this act may not be disclaimed by agreement"; and
 - g. To the extent prohibited by 5 – 117(d), i.e., when subrogation rights arise – generally, after the ISLOC is paid, thus buttressing the independence principle.
3. See discussion in footnote 19 to ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement.

- (g) **Forms.** There is no "standard" form of any ISLOC. ISP has provided a series of suggested forms with excellent footnotes that are not copyrighted. They can be found at <http://iiblp.org/banking-law-resources/isp-forms/> (these forms are: Form 1 - Model

Standby Incorporating Annexed Form of Payment Demand with Statement, Form 2 - Model Standby Providing for Extension and Incorporating Annexed Form of Payment Demand with Alternative Non-Extension Statement, Form 3 - Model Standby Providing for Reduction and Incorporating Annexed Form of Reduction Demand, Form 4 - Model Standby Providing for Transfer and Incorporating Annexed Form of Transfer Demand, Form 5 - Simplified Demand Only Standby, Form 6 - Model Counter Standby with Annexed Form of Local Bank Undertaking, Form 7 - Model Standby Requiring Confirmation, Form 8 - Model Confirmation of Standby, and Form 11.1 - Model Government Standby Form). In addition, there is very good form in Chapter 37 of the Third Edition of the New York State Bar Association's Commercial Leasing Treatise (Joshua Stein, Esq., Editor in Chief).

1. **Issuance.**

- a. "A letter of credit is issued and becomes enforceable according to its terms against the issuer when the issuer sends or otherwise transmits it to the person requested to advise or to the beneficiary." UCC Section 5-106(a)
- b. The ISLOC is issued when it leaves the issuer's control. ISP Rule 2.03.

2. **Name of the ISLOC.** Name on the ISLOC does not affect the substance of the ISLOC. ISP Rule 1.01(b).

3. **Demand for Draw.** Should be a simple demand by the beneficiary "so that when the beneficiary completes it as indicated, it will include a demand for payment of a stated amount, be dated and signed, and contain any required beneficiary statements."³ "Straight" ISLOC – from issuer to beneficiary that is not transferable. Not a "draft" since the ISLOC is not negotiable or transferable. Drafts imply that the demand for payment needs to comply with "banking practices" which are not uniform. Should be no need to provide the original ISLOC.⁴ Keep the demand simple.⁵

- a. **Amount Available.** The ISLOC should state the amount available. "Under ISP98 Rule 3.08(e) (Partial Drawings & Multiple Presentations; Amount of Drawings), a drawing that exceeds the amount available under the standby is discrepant. To override that rule and require the issuer to pay the full amount available under the standby against a presentation that would comply but for the "credit overdrawn" discrepancy, the following clause may be added: 'If a demand exceeds the amount available, but the presentation otherwise complies, Issuer undertakes to pay the amount available.'" Footnote 6, ISP Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement.
- b. UCC Section 5-111 addresses an **issuer's wrongful dishonor or repudiation** – the beneficiary gets its money and incidental (but not consequential) damages.
- c. **Partial/Multiple Draws.** ISP allows without the ISLOC so stating unless the ISLOC specifically prohibits them. ISP Rule 3.08. The amount available under the ISLOC is reduced by a draw. ISP Rule 1.10(c)(ii).⁶
- d. **Form of Payment Demand.** Annexing form of payment demand not necessary but helpful. Footnote 10, ISP Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement. Consult ISP Rule 4.09 (Identical Wording and Quotation Marks).

- e. “ISP98 Rule 2.01(e) (Undertaking to Honor by Issuer and Any Confirmer to Beneficiary) provides that honor by payment is to be made in immediately available funds.”⁷
 - f. See **Manner of Presentation** below
4. **Endorsement.** Should not be necessary to draw as the draw should be without recourse to the beneficiary - the recourse is supposed to be to the applicant only. If beneficiary’s signature is required, make clear that it is not an endorsement and merely complying with a demand requirement in the ISLOC and does not subject the beneficiary to recourse liability. Also see Fraud below regarding signatures.⁸
- a. UCC Section 5-110 (Warranties) sets forth the warranties the beneficiary makes to the issuer and the applicant if its presentation is honored (“(t)o the issuer, any other person to whom presentation is made, and the applicant that there is no fraud or forgery of the kind described in subsection (a) of section 5—109 [Fraud and Forgery]” and “(t)o the applicant that the drawing does not violate any agreement between the applicant and beneficiary or any other agreement intended by them to be augmented by the letter of credit.”)
 - b. UCC Section 5-117 (Subrogation of Issuer, Applicant and Nominated Person). This is not a surety relationship but a primary obligation of the issuer. But, the issuer **that has paid** the beneficiary is subrogated to the rights of the beneficiary and the applicant under the lease as if it was a “secondary obligor” (a surety). The applicant that “reimburses an issuer is subrogated to the rights of the issuer against any beneficiary . . . to the same extent as if the applicant were the secondary obligor of the obligations owed to the issuer and has the rights of subrogation of the issuer to the rights of the beneficiary stated in subsection (a) of this section.”
5. **Issued by a Local Bank Only??**
- a. Applicants typically only want to use their banks – if it’s not a local bank, applicant will pay an issuance fee to its nonlocal bank for the ISLOC, and then pay another confirmation fee to the local bank to confirm the ISLOC (“confirm” meaning the local bank will honor a demand under the ISLOC issued by another bank or that such demand will be honored by the issuer or by a third bank, assuring the beneficiary that it can obtain payment locally and enforce payment locally).⁹
 - b. Beneficiary wants the ISLOC issued by a local bank – the beneficiary does not want to file suit in a distant location that may be friendlier to the issuer using unfamiliar law to enforce the ISLOC; presentation of a demand is more difficult, time consuming, and logistically challenging if it is not local.¹⁰
 - c. But the law is essentially uniform – NY adopted the revised Article 5 of the UCC, as have all other states, and either ISP or UCP is incorporated in all cases.¹¹
 - d. And, beneficiary can insist the ISLOC provide that the local courts have exclusive jurisdiction and venue.¹²
 - e. And, beneficiary can insist in the ISLOC that demand can be made by courier or fax with no requirement that the original ISLOC be provided. Beneficiary can

confirm documents received by a phone call to the issuer. Issuer must advise of problems with demand by telecommunication.¹³

6. Manner of Presentation.

- a. "The information in the text of the standby indicating **where, how, and to whom** a presentation is to be made under the standby should be repeated in the demand form. See ISP98 Rules 3.01 (Complying Presentation under a Standby), 3.04 (Where and to Whom Complying Presentation Made), and 3.06 (Complying Medium of Presentation). Particular attention should be given to the possibility that a standby may require presentation at an address that differs from the issuer's letterhead address."¹⁴
- b. "(U)sual practice (is) sending original documents, sometimes including the original standby, in a package by courier to the issuer's indicated place of presentation. Presentations by telefax and the like are prohibited unless expressly permitted in the standby or unless the beneficiary is a SWIFT participant or bank sending a demand using SWIFT or other similar authenticated means. See ISP98 Rule 3.06 (Complying Medium of Presentation). ISP98 Rule 1.09(c) (Electronic Presentations) includes defined terms that may be used in a standby that permits electronic presentation."¹⁵
- c. "Standby identification. A demand form should identify the standby by including the information in the standby text that identifies it, particularly the issuer's reference number. See ISP98 Rules 3.01 (Complying Presentation under a Standby) and 3.03 (Identification of Standby)."
- d. See **Demand Date in Time of Presentation** below.

7. Place of Presentation. "ISP98 Rule 3.01 (Complying Presentation under a Standby) provides that a standby should indicate the place, the location within that place, and the person to whom presentation should be made. ISP98 Rule 3.04 (Where and to Whom Complying Presentation Made) provides default rules. The indicated place of presentation is significant in determining whether a complying demand is timely presented."¹⁶

- a. "A standby may require presentation to the issuer to be made at a place that is not the place of issuance, e.g., to and at the address of a processing agent for the issuer (which could be an affiliate or another bank). A standby may also nominate another branch or bank to receive a presentation and act on that nomination. See ISP98 Rule 2.04 (Nomination)"¹⁷

8. Time of Presentation. "ISP98 Rule 3.05 (When Timely Presentation Made) provides that presentation must be made before expiry on the expiration date and that a presentation after business hours is treated as made the next business day. Rule 9.04 (Time of Day of Expiration) provides that expiry occurs at the close of business at the place of presentation."¹⁸

- a. "Three days to examine and pay a presentation. ISP98 Rules 2.01(c) (Undertaking to Honor by Issuer and Any Confirmer to Beneficiary) and 5.01 (Timely Notice of Dishonor) provide for the time an issuer has to honor or dishonor and include a safe-harbor of three business days after presentation. The three day period begins on the business day following the business day of presentation." The

standard is a reasonable time period (“Notice of dishonor must be given within a time after presentation of documents which is not unreasonable.” More than seven (7) days is unreasonable. These time periods can be lengthened or shortened.¹⁹

- i. Notice of dishonor must be specific, comprehensive, prompt, by “telecommunication” unless unavailable, and given to the presenter unless the presenter requests otherwise. Failure to timely state a discrepancy basically bars asserting the discrepancy for that draw but not a future draw request. Failure to timely give a notice of dishonor obligates the issuer to pay at maturity. ISP98 Rule 5.
- b. “Demand Date. ISP98 Rule 4.16(b)(ii) (Demand for Payment) provides that a demand must contain an issuance date, and ISP98 Rule 4.06 (Date of Documents) provides that its issuance date may not be later than the date of its presentation.”²⁰

9. Expiration Date.

- a. If there is **no stated expiration date or other provision that determines its duration**, a letter of credit expires one year after its stated date of issuance or, if none is stated, after the date on which it is issued. UCC Section 5-106(c).
- b. A letter of credit that states that it is **perpetual** expires five years after its stated date of issuance, or if none is stated, after the date on which it is issued. UCC Section 5-106(d).
- c. “Standbys **must contain an expiration date** under ISP98 Rule 9.01 (Duration of Standby) . . . the common practice . . . (is) stating a specific calendar date.”²¹
- d. ISP suggests that “(t)he stated (expiration) date should be set sufficiently after the underlying obligation becomes due to allow for drawing after refusal of an initial drawing. If payment of the underlying obligation may be made outside of the standby, the stated date should be set to allow also for drawing after any possible rescission of an outside payment made by an insolvent payor.”²²
- e. Common practice if an “**evergreen**” ISLOC is sought, “is to set a one year expiration date and allow for automatic annual extensions unless the issuer sends or the beneficiary receives advance notice of non-extension. ISP98 Rule 2.06(a) (When an Amendment is Authorized and Binding) makes “automatic amendments”, including extensions of the expiration date, effective without further notification or consent, if the automatic amendment is expressly stated in a standby. ISP98 Form 2 (Model Standby Providing for Extension) focuses on annual automatic extension and other alternatives to a single fixed expiration date.”²³
- f. “The **expiration date** stated in a standby is **not necessarily the last day** on which a complying presentation may be made under the standby. ISP98 Rules 3.13 (Expiration Date on a Non- Business Day) and 3.14 (Closure on a Business Day and Authorization of Another Reasonable Place for Presentation) extend the expiration date where it falls on a non-business day or on a day the bank is closed for any other reason.”

- i. ISP Rule 3.13 basically states that if the expiration date is not a business day “where presentation is to be made”, presentation is timely if made on the “first following business day.”
- ii. ISP Rule 3.14 allows for a 30 day extension for presentation if the presentation location is closed, and allows the issuer to change the presentation location to a “reasonable place” if it is anticipated the presentation location will be closed (with a 30 day extension of the expiration date if the location change is made within 30 days of the schedule expiration date and the presentation is late as a result).

10. Place and Method of Payment.

- a. “Unless the standby otherwise states, an issuer is not required to pay anyone other than a beneficiary, a nominated person, or an acknowledged assignee of standby proceeds and is not required to pay anywhere other than at the place of presentation. See ISP98 Rule 6 (Transfer, Assignment, and Transfer by Operation of Law).”²⁴
- b. “Payment may be made at the place of presentation by sending a bank check to the order of the beneficiary or by initiating a wire transfer.”²⁵
- c. Payment by check or wire may be specified in the ISLOC.²⁶

11. Fraud.

- a. Issuer is discharged to the extent of its performance under the letter of credit unless the issuer honored a presentation in which a required signature of a beneficiary was forged. UCC Section 5-108(5). This essentially means that the beneficiary can still make a demand and be paid, even if the issuer has already paid, if the beneficiary is not the party who requested the draw. Why would the issuer pay a party that is not the beneficiary since the ISLOC is not transferable unless specifically allowed in the ISLOC, and the procedure for transfer is specifically detailed in the ISLOC (see ISP Model Form 4)? The issuer would then seek payment from the applicant.
- b. An issuer “shall honor” a demand for payment if a draw presentation strictly complies with the ISLOC even if “a required document is forged or materially fraudulent, or honor of the presentation would facilitate a material fraud by the beneficiary on the issuer or applicant” if the demand is made by certain parties **that are not the beneficiary** (issuer, nominated person, holder in due course, certain assignees). Otherwise, “(t)he issuer, acting in good faith, may honor or dishonor the presentation . . .” UCC Section 5-109(a)
- c. UCC Section 5-109(b) enables a payment under the ISLOC to be “temporarily or permanently” enjoined “(i)f an applicant claims that a required document is forged or materially fraudulent or that honor of the presentation would facilitate a material fraud by the beneficiary on the issuer or applicant”.

- d. But, if UCP or ISP are incorporated, issuer is potentially let off the hook to the beneficiary if the demand presentation meets the ISLOC demand requirements. UCP, Article 15; UCP, Article 34; ISP, Rule 1.08(b) and UCP, Article 13(a); UCP, Article 14(a); ISP, Rule 4.01(b). The issuer can further prevent itself from honoring a demand presentation from the true beneficiary if it has already honored an ISLOC that states that the issuer is to honor a presentation “purportedly” signed by the beneficiary.²⁷
- e. Simple way around this problem, state in the ISLOC all payments are to be wired to a specific account of beneficiary detailed in the ISLOC since any forgery only results in the money going to the beneficiary. Change of the destination account can only be accomplished by an amendment to the ISLOC, and an amendment to an irrevocable ISLOC not stating otherwise are not effective against the beneficiary unless the beneficiary has agreed to it (“After a letter of credit is issued, rights and obligations of a beneficiary, applicant, confirmer, and issuer are not affected by an amendment or cancellation to which that person has not consented except to the extent the letter of credit provides that it is revocable or that the issuer may amend or cancel the letter of credit without that consent”). UCC Section 5-106(b)²⁸
- f. See **Place and Method of Payment** above.

12. **Pay First, Litigate Later.**²⁹

- a. Beneficiary has no duty to mitigate damages.³⁰
- b. Applicant has limited right to enjoin.³¹
- c. Beneficiary’s warranties if it draws.³²
- d. Beneficiary’s obligations under the lease and applicant’s rights under the lease as to a draw.
- e. Applicant still has claims related to unreasonable liquidated damages; unjust enrichment; exceeds statutory, regulatory or public policy limitations.³³

(iv) **Guaranty**

- (a) Variety of forms for leases. Look at the discussions and forms in Chapters 35 and 36 of the Third Edition of the New York State Bar Association’s Commercial Leasing Treatise, Copyright 2017 (Joshua Stein, Esq., Editor in Chief), entitled “Lease Guaranties”, by Michelle Maratto Itkowitz, Esq., and Jay Itkowitz, Esq., and “Model Lease Guaranty”, by Joshua Stein, Esq., respectively. Typically:
 - 1. Guaranty of all Obligations/Absolute Guaranty.
 - 2. Limited Guaranty – (certain) monetary obligations and/or (certain) non-monetary obligations.
 - a. Fixed rent; fixed rent and certain additional rent; unamortized construction allowance, brokerage commission, free rent; condition of the premises at the end of the term.
 - b. Full guaranty for a certain time period that ends or changes into a form a partial guaranty afterwards if the tenant performs under the lease.

- c. Guaranty with a cap on total monetary obligations.
 - d. Construction/Improvement completion guaranty.
 - e. Other possibilities.
 - f. Concerning guaranty of monetary obligations - guaranty of payment or collection (practically always a guaranty of payment).
3. Good Guy Guaranty. The guarantor is released if it meets the conditions, not the tenant.
- a. Variations – from the “classic good guy”: guarantor released upon surrender of the premises - to others requiring other conditions to be met in order for the guarantor to be released – e.g., advanced notice, that all rent be paid up to the surrender date, formal surrender in required form, required condition of the premises.
 - b. Guarantor wants it to be easy to surrender the space and be released. If the tenant is credit worthy, the landlord can have recourse to that tenant under the lease.
 - c. Does making the surrender harder mean that the purpose of the good guy guaranty is subverted – that it is too hard/impossible to be a “good guy” so the tenant opts to fight the guaranty and remains in the premises without paying rent because it can’t surrender them without the guarantor being released. It’s supposed to be a release of the guarantor if the premises are surrendered, and not a stealth absolute guaranty.
 - d. What should the condition of the premises be? Should it matter since the landlord got what it wanted: the premises without the protracted struggle, lost rent, legal expense, and inability to relet? What if the broke tenant is malicious and wrecks the premises before surrendering? What if there are any liens (mechanic’s liens) or other encumbrances (filed UCC against improvements – note that improvements affixed to premises’ typically become landlord’s property)?
 - e. Guarantor should look out for the pitfalls in the surrender requirement.
 - f. What if a portion of the premises has been sublet? Guarantor remains fully responsible, even if the portion sublet is a small portion of the premises.
 - g. Does any advance notice of surrender make the surrender mandatory? What if the tenant recovers and does not surrender – and the landlord hires a broker to lease the space and signs a lease with a new tenant? Is the sending of the notice an anticipatory breach of the lease?
 - h. Guarantor can protect itself by limiting the guaranteed obligations. For example, to fixed rent plus certain additional rent plus certain non-monetary obligations. Guarantor should be wary of accelerated amounts, non-monetary obligations, and clawbacks.

(b) Selected Issues

- 1. Make sure that the Guarantor is vetted – credit checks authorized in writing by the guarantor, litigation checks, financial review, etc. It can be a person or an entity.
- 2. Where to put what. Landlord signs the lease along with the tenant, but only the guarantor signs the guaranty.

3. Whoever the guarantor is, make sure that there is consideration (benefit for the guarantor's detriment).
 - a. Downstream Guaranty – parent guarantees the obligation of a subsidiary; substantial owner guarantees the obligation of a company it owns or owns a substantial portion of.
 - b. Upstream Guaranty – subsidiary guarantees the obligation of a parent.
 - c. Cross Stream Guaranty – brother – sister guarantees the obligation of a brother – sister.
 - d. Have the guaranty mention the benefit to the guarantor in the recitals as well as contain the typical consideration clause. Mention that the landlord would not sign the lease/lease amendment/other document without the guarantor's guaranty. Date the lease documents the same date to make the link between the documents clear.
 - e. If the guaranty is not signed as part of the original lease transaction, specify consideration for that guaranty.
4. Closing Documents
 - a. If you are the landlord's counsel, perhaps treat the closing like you are a title company or a bank. Get ID's, signatures acknowledged by a notary, resolutions/consents, attorney opinion, company documents, good standing.
 - b. Tenant's counsel should consider a waiver of conflict and contribution agreement (guarantors should still be jointly and severally liable).
5. Do you want to obtain periodic financial reports from the guarantor? If there is a financial standard, what then? Is it a default? Does the tenant have to get a new satisfactory guarantor? Does the tenant have to post more security? Etc.
6. Guaranties typically contain guarantor's agreement that the guaranty applies to the lease no matter what happens to or with respect to the lease (survival clause) – and then contains an exhausting waiver list just to make sure. This is because a surety's consent is necessary for it to be liable under a changed document, and waivers are enforceable.
 - a. Just to be sure, if anything of consequence occurs, especially if it is in writing - a lease amendment, for instance - the guarantor's consent to the document, affirmation that the guaranteed lease includes that new document, and ratification of the guaranty and the lease, should be obtained, usually as paragraph appearing at the end of the document – after the execution lines but before any exhibits.
 - b. If a novation occurs, guarantor is released. "In a novation, the existing obligation is extinguished by the acceptance of a new promise in satisfaction of the original obligation."³⁴ So, if you cannot get the guarantor to consent, confirm and ratify, draft the agreement so that it does not supersede, substitute, extinguish, revoke, cancel or terminate the lease, that the agreement is an amendment, and that the lease remains in full force and effect.³⁵
7. Landlord concessions to Guarantor.

- a. Substitute guarantor in certain circumstances (assignment of lease). Landlord needs to consent to the guarantor. Original guarantor released - completely or prospectively.
- b. Notices of tenant's default under the lease, and opportunity to cure that default.

III. **Bankruptcy.**

(i) Preliminaries.

- (a) When the tenant files a petition for bankruptcy under Section 362 of the Bankruptcy Code (Title 11 of the United States Code), the petition acts as an automatic stay. The Landlord should leave the tenant alone until it hires a bankruptcy attorney.
- (b) Tenant has the right to assume or reject the commercial lease – tenant must assume or reject the lease within the earlier of one hundred twenty (120) days or “the date of the entry of an order confirming a plan”, which time period the court can extend prior to the expiration of the one hundred twenty (120) days for another ninety (90) days (silence means rejection)(further extensions require the landlord's consent).³⁶
- (c) If the tenant assumes the lease, it must cure pre and post petition defaults, and “provide adequate assurance of future performance under the lease.” Shopping center leases have additional requirements.³⁷
- (d) If the tenant rejects the lease, “(a)lthough the rejection occurs after the bankruptcy petition has been filed, the Bankruptcy Code creates the legal fiction that rejection constitutes a breach of the lease by the debtor-tenant immediately before the commencement of the bankruptcy case. Treating rejection as a prepetition breach gives the landlord's claim for damages the status of a prebankruptcy claim that, to the extent it is unsecured, may receive a distribution from the bankruptcy estate worth only a fraction of the landlord's damage claim.”³⁸
 - 1. Landlord typically would be allowed to try and recover all damages allowed under state court.
 - 2. **The Cap.** But, Section 502(b)(6) of the Bankruptcy Code states that a landlord's claim for damages cannot exceed “(A) the rent reserved by such lease, without acceleration, for the greater of one year, or 15 percent, not to exceed three years, of the remaining term of such lease, following the earlier of (i) the date of the filing of the petition; and (ii) the date on which such lessor repossessed, or the lessee surrendered, the leased property; plus (B) any unpaid rent due under such lease, without acceleration, on the earlier of such dates is capped.” In other words, “(i)f Landlord's damages do not exceed one year's rent . . . bankruptcy law will typically allow Landlord to file a claim for the entire amount of Landlord's damages. If, however, Landlord's damages exceed that level . . . Landlord's claim arising from Tenant's breach of the lease will be capped at whichever of these two alternatives is lower: (1) 15% of the remaining rent under the lease or (2) three years' rent. Landlord can also include in its claim any unpaid rent due before Tenant filed.”³⁹
 - 3. And, “(a)fter the . . . Cap shrinks Landlord's claim, Landlord then joins the throng of unsecured creditors who typically receive pennies on the dollar for their claims. Landlord potentially suffers four times: first, if the lease defines or limits Landlord's damages; second, if state law further limits Landlord's claim; third, if the . . . Cap then

further diminishes Landlord's claim; and fourth, if Landlord, with its diminished claim, becomes an unsecured creditor and might get paid only partially, just like any other unsecured creditor."⁴⁰

- a. The security is used to reduce the capped claim **and** the claim allowed by state law. If the actual damages claim is more than the damages allowed by the Cap, the security is applied to reduce them both, not just the larger state damages claim.

(ii) Cases do seem to stand for three principles:

1. Whenever Landlord retains a cash security deposit, the bankruptcy courts will first apply the Claim Cap against Landlord's claim, then credit the cash security deposit against Landlord's remaining claim.
2. Courts will treat L/Cs as security deposits when Tenants give Issuer cash security. The presence of an actual cash deposit (even in Issuer's hands) makes the whole arrangement too much like a cash security deposit to treat it as anything else.
3. If the lease shows the parties intended to use an L/C in place of a cash security deposit, this increases the likelihood a court will apply the Claim Cap. Any suggestion that the L/C replaces or substitutes for a cash security deposit will raise a red flag.⁴¹

(iii) **Cash.**

- (a) The stay prevents the landlord from initially taking it.
- (b) The Cap limits what the landlord can recover no matter how large the cash security deposit, and the security deposit reduces the claim as reduced by the Cap even if that claim is less than the statutory claim.
- (c) Even if you state the security is liquidated damages, courts won't enforce a penalty.

(iv) **Guaranty.**

- (a) A landlord is not barred from pursuing a claim for the full amount of damages allowable under state law against a guarantor of the lease. The stay does not apply to the guarantor and the guarantor "does not receive the benefit of any discharge granted to the debtor-tenant." Essentially, the guarantor's recovery rights against the tenant are subject to the Cap, not the landlord's recovery rights against the guarantor under the guaranty (the guarantor's rights are limited to reimbursement (to the extent that the landlord can recover damages from the tenant under bankruptcy) or subrogation (guarantor obtaining the rights of landlord to the extent that the landlord can recover from the tenant)).⁴² This makes sense as the purpose of the guaranty should be to get around the Cap risk by shifting it to the guarantor. Guarantees have their own drawbacks, as the landlord has to pursue a third party whose creditworthiness may change and navigate what may be a costly and time consuming process involving at least two (2) documents.
- (b) Be wary of substantive consolidation of the guarantor and the tenant. This is an equitable doctrine in bankruptcy that allows for the consolidation of affiliated entities. The consolidation of an entity with a positive net worth with an entity that has a negative net worth can reduce a creditor of the positive net worth entity's recovery since the overall result could change the positive net worth debtor to a negative one, and drag the non-bankrupt creditor into bankruptcy. Can this happen to tenant and the guarantor?⁴³

(c) Smart practice – to avoid the time consuming and costly process of seeking to recover against the guarantor in state court only to have the guarantor file a motion in bankruptcy court to extend the stay to the guarantor (this having to incur the time and expense for both), “file a motion in bankruptcy court seeking a declaration that the stay does not apply to the guarantor in order to allow an action on the guaranty to proceed in state court uninhibited.”⁴⁴

(d) Court can extend the stay to the guarantor. Landlord can seek relief from the stay.⁴⁵

(v) **Letter of Credit.**

(a) Independence principle should mean that an ISLOC draw is not drawing tenant’s cash security but an issuer’s money.

(b) Does posting a letter of credit allow the landlord to recover the full amount of the ISLOC to the extent that it is applied against all damages the landlord claims it has suffered (like a guaranty), or is the amount of the ISLOC applied to the damages as reduced by the Cap (like cash security) even if the total damages exceed the Cap?

1. Cases show that the courts seek to make the ISLOC more like cash security and not like a guaranty, meaning that ISLOC draws reduce the damages reduced by the Cap and not just the amount of uncapped damages. There are cases where the courts see no distinction between cash security and proceeds from an ISLOC (especially where the lease states that the ISLOC is in lieu of a cash security deposit). There are cases where the court makes a more nuanced analysis and finds the deposit of cash security by the tenant with the issuer to secure the ISLOC the determining factor.⁴⁶

(c) Suggestions to address these decisions.⁴⁷

Preparation of this presentation was impossible without reviewing, relying heavily on, taking from, applying and using the following materials. These materials often repeated the same points. I urge the reader to consult these materials in any attempt to apply the foregoing materials, and humbly ask that I be excused from any claim or charge of not giving all of the authors proper attribution. They are, in no particular order, the following:

Chapters 35, 36, 37 and 38 of the Third Edition of the New York State Bar Association's Commercial Leasing Treatise, Copyright 2017 (Joshua Stein, Esq., Editor in Chief), entitled "Lease Guaranties", by Michelle Maratto Itkowitz, Esq., and Jay Itkowitz, Esq., "Model Lease Guaranty", by Joshua Stein, Esq., "Legal Issues, Practices, and Practicalities for Letter of Credit in Commercial Leases, with a Sample Letter of Credit and Commentary", by Joshua Stein, Esq., and "An Update on the Bankruptcy Law of Large Letters of Credit for Leases", by Joshua Stein, Esq., respectively.

New York Uniform Commercial Code Article 5.

International Chamber of Commerce International Standby Practices (ISP98)(ICC Publication No. 590).

"Letter of Credit as a Landlord's Protection Against a Tenant's Bankruptcy: Assurance of Payment or False Sense of Security", by Alan N Resnick, *The American Bankruptcy Law Journal*, Vol. 82, October 7, 2008.

"Tenant Letters of Credit: Satisfying the Landlord's Lender", by Gary York and Alex Grigoriens, *Real Estate law and Industry Report*, 5 REAL 226, April 3, 2012.

"Guaranties, Good Guy Guaranties and How to Use Them in Lease Negotiations and Litigation", a publication by Itkowitz PLISLOC.

"Standby Letter of Credit Rules and Practices Misunderstood or Little Understood by Applicants and Beneficiaries," by Carter H. Klein, *Uniform Commercial Code Law Journal*, Vol. 40 No. 2, Thomson West January 19, 2008.

"What Lawyers Need to Know About the New UCC Section 5 – Letters of Credit," Copyright 2000 by Practising Law Institute, Chair Sandra Stern, Commercial Law and Practice, Course Handbook Series, Number A-801.

"Revisiting the 24 Defenses of the Guarantor – 24 Years Later", by Joshua Stein and Elaine Wang, *The Practical Real Estate Lawyer*, January, 2012.

"Elegant & Effective ... Letters of Credit in Commercial Loans and Bankruptcy" (Part 1 of 3 through 3 of 3), by Anthony Callobre.

And, the variety of CLE's I have attended/listened to/watched over the years touching on these subjects and whose materials I have retained, reviewed, used and relied on from time to time.

¹ "Standby Letter of Credit Rules and Practices Misunderstood or Little Understood by Applicants and Beneficiaries," by Carter H. Klein, *Uniform Commercial Code Law Journal*, Vol. 40 No. 2, Thomson West January 19, 2008, at 145 - 147.

² See, for instance, the detailed list of benefits to beneficiaries, issuers and applicants, that, despite its length, is not exhaustive, detailed at pages 140 – 143 in "Standby Letter of Credit Rules and Practices Misunderstood or Little Understood by Applicants and Beneficiaries," by Carter H. Klein, *Uniform Commercial Code Law Journal*, Vol. 40 No. 2, Thomson West January 19, 2008.

³ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 24.

⁴ Klein, *supra* note 1, at 129.

⁵ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 25.

⁶ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnotes 17 and 18.

⁷ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 16.

⁸ Klein, *supra* note 1, at 132.

⁹ *Id.* at 134 - 136.

¹⁰ *Id.* at 134 - 136.

¹¹ *Id.* at 134 - 136.

¹² *Id.* at 134 - 136.

¹³ *Id.* at 134 - 136.

¹⁴ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 22.

¹⁵ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 11.

¹⁶ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 12.

¹⁷ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 12.

¹⁸ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 13.

¹⁹ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 15.

²⁰ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 21.

²¹ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 14.

²² ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 14.

²³ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 14.

²⁴ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 16.

²⁵ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 16.

²⁶ ISP98 Form 1 Model Standby Incorporating Annexed Form of Payment Demand with Statement, Footnote 16.

²⁷ Klein, *supra* note 1, at 137.

²⁸ *Id.* at 139.

²⁹ *Id.* at 144, citing Eakin, 875 F.2d 114; In re Sabratek Corp., 257 B.R. 732, 45 Collier Bankr. Cas. 2d (MB) 1223 (Bankr. D. Del. 2000).

³⁰ UCC Section 5-111(a); Klein, *supra* note 1, at 143 – 144.

³¹ UCC Section 5-109(b).

³² UCC Section 5-110

³³ Klein, *supra* note 1, at 144 - 145.

³⁴ *American Bank & Trust Co. v. Koplik*, 87 A.D.2d 351 (1st Dept. 1982) at 354, as cited in “Careful Drafting Can Keep Guaranties if Loans are Modified”, by Alan M. Christenfeld and Shephard W. Melzer, *The New York Law Journal*, Vol. 241, No. 24, February 5, 2009.

³⁵ *Id.*, at ____.

³⁶ Section 365(a) and (d)(4) of the Bankruptcy Code.

³⁷ Section 365 of the Bankruptcy Code.

³⁸ “Letter of Credit as a Landlord’s Protection Against a Tenant’s Bankruptcy: Assurance of Payment or False Sense of Security”, by Alan N. Resnick, *The American Bankruptcy Law Journal*, Vol. 82, October 7, 2008, at 498; Section 365(g) of the Bankruptcy Code.

³⁹ Chapter 38 of the Third Edition of the New York State Bar Association’s Commercial Leasing Treatise, Copyright 2017 (Joshua Stein, Esq., Editor in Chief), entitled “An Update on the Bankruptcy Law of Large Letters of Credit for Leases”, by Joshua Stein, Esq., at 38-3 – 38-4.

⁴⁰ *Id.* at 38-4.

⁴¹ *Id.* at 38-13.

⁴² Resnick, *supra* note 38, at 500 - 501.

⁴³ Chapter 36 of the Third Edition of the New York State Bar Association's Commercial Leasing Treatise, Copyright 2017 (Joshua Stein, Esq., Editor in Chief), entitled "Model Lease Guaranty", by Joshua Stein, Esq., at 36-5.,

⁴⁴ Chapter 35 of the Third Edition of the New York State Bar Association's Commercial Leasing Treatise, Copyright 2017 (Joshua Stein, Esq., Editor in Chief), entitled "Lease Guaranties", by Michelle Maratto Itkowitz, Esq., and Jay Itkowitz, Esq., at 35-37 - 35-38.

⁴⁵ *Id.* at 35-38 – 35-40.

⁴⁶ Resnick, *supra* note 38, generally, and Stein, *supra* note 39, generally.

⁴⁷ Chapter 38 of the Third Edition of the New York State Bar Association's Commercial Leasing Treatise, Copyright 2017 (Joshua Stein, Esq., Editor in Chief), entitled "An Update on the Bankruptcy Law of Large Letters of Credit for Leases", by Joshua Stein, Esq., at 38-14 – 38-22.

Exhibits - Cash Security Deposit

Exhibits

Security Deposit – use any of the modern (O4) REBNY forms.

Tenant has deposited with Owner the sum of \$_____ as security for the faithful performance and observance by Tenant of the terms, provisions and conditions of this lease. It is agreed that in the event Tenant defaults in respect of any of the terms, provisions and conditions of this lease, including, but not limited to, the payment of rent and additional rent, Owner may use, apply or retain the whole or any part of the security so deposited to the extent required for the payment of any rent and additional rent, or any other sum as to which Tenant is in default, or for any sum which Owner may expend, or may be required to expend, by reason of Tenant's default in respect of any of the terms, covenants and conditions of this lease, including but not limited to, any damages or deficiency in the re-letting of the demised premises, whether such damages or deficiency accrued before or after summary proceedings or other re-entry by Owner. In the event that Tenant shall fully and faithfully comply with all of the terms, provisions, covenants and conditions of this lease, the security shall be returned to Tenant after the date fixed as the end of the lease, and after delivery of entire possession of the demised premises to Owner. In the event of a sale of the land and building or leasing of the building, of which the demised premises form a part, Owner shall have the right to transfer the security to the vendee or lessee, and Owner shall thereupon be released by Tenant from all liability for the return of such security; and Tenant agrees to look to the new Owner solely for the return of said security, and it is agreed that the provisions hereof shall apply to every transfer or assignment made of the security to a new Owner. Tenant further covenants that it will not assign or encumber, or attempt to assign or encumber, the monies deposited herein as security, and that neither Owner nor its successors or assigns shall be bound by any such assignment, encumbrance, attempted assignment or attempted encumbrance.

AND, in the portion of the REBNY form defining default:

if Tenant shall have failed, after five (5) days written notice, to redeposit with Owner any portion of the security deposit hereunder which Owner has applied to the payment of any rent and additional rent due and payable hereunder,

NYC Bar Form – found on the NYC Bar Website

Retail Lease

Tenant has deposited with Landlord, as security for Tenant's compliance with this lease, the Security, in cash. If Tenant defaults in performing any of its obligations under this lease, Landlord may use all or any portion of the Security to cure such breach or for the payment of any other amount due and payable from Tenant to Landlord in accordance with this lease. If Tenant shall, during any twelve (12) month period, twice be in breach of its obligation to pay Rent on the first of the month, Tenant shall promptly after Landlord's request, remit to Landlord an amount equal to _____ [number of] months of the then current amount of the monthly installment of Fixed Rent so that the amount of Security required under this lease shall then be equal to _____ months' of then current Fixed Rent. If Landlord uses all or any part of the Security, Tenant shall, within fifteen (15) days following Landlord's notice, deposit with Landlord an amount sufficient to restore the full amount of the Security. Landlord shall not, unless required by any Laws, pay interest to Tenant on the Security, and if Landlord is required to maintain the Security in an interest bearing account or pay any interest to Tenant, Landlord shall retain the maximum amount of interest permitted under any Laws (which Landlord may withdraw and retain annually or at any other times).

Exhibits - Cash Security Deposit

Tenant shall not assign (other than to a permitted assignee of this lease) or encumber the Security, and no prohibited assignment or encumbrance by Tenant of the Security shall bind Landlord. Landlord shall not be required to exhaust its remedies against Tenant or the Security before having recourse to Tenant, any Guarantor, the Security or any other security held by Landlord, or before exercising any right or remedy, and recourse by Landlord to any one of them, or the exercise of any right or remedy, shall not affect Landlord's right to pursue any other right or remedy or Landlord's right to proceed against the others. If there is then no uncured breach, the Security and any accrued and unpaid interest thereon, or any balance, shall be paid or delivered to Tenant promptly after the Expiration Date and Tenant's vacating of the Premises in accordance with this lease. If Landlord's interest in the Real Property is sold or leased, Landlord shall transfer the Security and any accrued and unpaid interest thereon, or any balance, to the new Landlord and, upon such transfer, the assignor shall thereupon be automatically released by Tenant from all liability for the return of the Security or any interest (and Tenant agrees to look solely to the assignee for the return of the Security or any interest).

Office Lease

Tenant has deposited with Landlord, as security for Tenant's compliance with this lease, the Security, in cash or, if requested by Landlord or Tenant, by a standby letter of credit on the terms, and substantially in the form, attached to this lease as Exhibit D, issued by a bank that is a member of the New York Clearing House Association, L.L.C. having its principal office in the City of New York and otherwise acceptable to Landlord (the "Letter of Credit"). If there is a Default, Landlord may use all or any portion of the Security to cure the Default or for the payment of any other amount due and payable from Tenant to Landlord in accordance with this lease. Tenant shall, within 15 days following Landlord's notice, deposit with Landlord in cash or by a Letter of Credit an amount sufficient to restore the full amount of the Security (without giving consideration to any interest accrued on the Security). Landlord shall not, unless required by any Law, pay interest to Tenant on the Security, and if Landlord is required to maintain the Security in an interest bearing account or pay any interest to Tenant, Landlord shall retain the maximum amount of interest permitted under any Law (which Landlord may withdraw and retain annually or at any other times). Tenant shall not assign (other than to a permitted assignee of this lease) or encumber the Security, and no prohibited assignment or encumbrance by Tenant of the Security shall bind Landlord. Landlord shall not be required to exhaust its remedies against Tenant or the Security before having recourse to Tenant, any Guarantor, the Security or any other security held by Landlord, or before exercising any right or remedy, and recourse by Landlord to any one of them, or the exercise of any right or remedy, shall not affect Landlord's right to pursue any other right or remedy or Landlord's right to proceed against the others. If there is then no uncured Default, the Security and any accrued and unpaid interest thereon, or any balance, shall be paid or delivered to Tenant promptly after the Expiration Date and Tenant's vacating of the Premises in accordance with this lease. If Landlord's interest in the Building is sold or leased, Landlord shall transfer the Security and any accrued and unpaid interest thereon, or any balance, to the new Landlord and, upon such transfer, the assignor shall thereupon be automatically released by Tenant from all liability for the return of the Security or any interest (and Tenant agrees to look solely to the assignee for the return of the Security or any interest).

Provisions:

It is the intention of the parties that Tenant shall deposit with Landlord and Landlord shall maintain a sum equal to _____ times the monthly _____ due during the last month of the _____ Lease Year of the Term of this Lease at all times.

Exhibits - Cash Security Deposit

In the event that Landlord has made any application of all or any part of the security deposit as per the terms and provisions of this Lease, Tenant shall pay Landlord any sum or sums necessary to maintain a security deposit equal _____.

Landlord agrees to deposit the security in an interest bearing account in a bank located in New York State. To the extent not prohibited by law, Landlord shall be entitled to receive and retain as an administrative expense that portion of the interest received on such account which represents the maximum fee permitted under applicable law, which fee Landlord shall have the right to withdraw from time to time, as Landlord may determine. The balance of the interest shall be added to and held as part of the security under this lease subject to and in accordance with the provisions of the foregoing Article. Landlord shall not be required to credit Tenant with any interest for any period during which Landlord does not receive interest on the security deposited.

I suggest you look at Joshua Stein's Lease Security Deposit Provision in his form lease appearing in the Third Edition of the New York State Bar Association's Commercial Leasing Treatise, Copyright 2017 (Joshua Stein, Esq., Editor in Chief).

Exhibits – Letter of Credit

Letter Of Credit

NYC Bar Retail Lease

Notwithstanding any other provision of this lease to the contrary, Tenant may, at any time except if a Default has occurred, substitute the cash Security with an irrevocable, unconditional, “clean”, “evergreen” (i.e. automatic renewal) letter of credit in form and substance acceptable to Landlord, issued by a federally insured bank with a Standard & Poor’s credit rating of at least AA, whose office for the presentation of a letter of credit to be drawn upon is in New York City and is reasonably acceptable to Landlord. Tenant shall keep any such letter of credit, including without limitation such amendments or replacements as are necessary to increase the amount of the letter of credit as the amount of the required Security increases and after Landlord has drawn on the letter of credit, in full force and effect for not less than sixty (60) days after the Expiration Date of the Term. Landlord may draw upon the letter of credit in whole or in part and apply the proceeds for the same reasons, and in the same manner, as the cash Security. In addition, Landlord may draw upon the letter of credit if (a) Tenant has not supplied an amendment or replacement at least ninety (90) days prior to (i) the expiry date, if any, or (ii) the date on which the amount of the letter of credit is required to be increased; (b) Landlord asks the letter of credit issuer to confirm the current expiry date and the issuer does not do so within ten (10) days after Landlord’s request; (c) Tenant fails to pay any bank charges with respect to any Landlord transfer of the letter of credit; (d) the issuer ceases, or announces that it will cease, to maintain an office in New York City where Landlord may present draw requests; or (e) the letter of credit issuer has a credit rating by Standard & Poor’s of less than AA and, within thirty (30) days following Landlord’s notification to Tenant that the letter of credit issuer’s Standard & Poor’s credit rating is less than AA, Tenant has not provided Landlord with a replacement letter of credit from an issuer with a Standard & Poor’s credit rating of at least AA. Tenant shall not seek to enjoin, prevent or otherwise interfere with Landlord’s draw against the letter of credit. Tenant acknowledges that the only effect of an erroneous draw would be to substitute cash Security for the letter of credit, which would not cause Tenant any legally recognizable damage. The letter of credit shall provide that the letter of credit is freely transferable by Landlord, its successors and assigns, as its beneficiary without payment by Landlord (or any subsequent transferee) of any fee or other consideration for such transfer. If Landlord transfers its interest in the Premises, Tenant shall, at Tenant’s expense, within ten (10) days after receipt of Landlord’s request, deliver to Landlord or its transferee, an amendment to the letter of credit naming Landlord’s transferee as substitute beneficiary of the letter of credit.

NYC Bar Office Lease

After first reviewing the cash security deposit provision

If the Security is by a Letter of Credit, the following provisions of this Section shall apply (in addition to the other provisions of this Article):

(a) If the bank issuing the Letter of Credit shall notify Landlord that the term of the Letter of Credit shall not be renewed, Tenant shall, at least 30 days prior to the

Exhibits – Letter of Credit

expiration date of the Letter of Credit, replace the Letter of Credit with a new Letter of Credit, having an initial expiration date at least one year from the date of the new Letter of Credit.

(b) If, for any reason other than Landlord's failure to comply with the requirements of the Letter of Credit, the bank issuing the Letter of Credit shall fail or refuse to honor any demand, Tenant shall within 15 days following Landlord's notice to Tenant of such failure or refusal, at Landlord's option, either (i) deposit with Landlord the Security in cash or (ii) replace the Letter of Credit with a new Letter of Credit (having an initial expiration date at least one year from the date of the new Letter of Credit).

(c) If Landlord shall transfer its interest in the Building, Tenant shall, at the request of the transferor or transferee, replace or amend the Letter of Credit within 10 days following such request, so that the transferee is named as the beneficiary. Any transfer fee or charge imposed by the bank issuing the Letter of Credit shall be reimbursed to Landlord (or, at Landlord's option, paid) by Tenant within 15 days following Landlord's request.

(d) If there shall be a Default, in addition to any other right or remedy of Landlord, Landlord shall have the right immediately to draw the full amount of the Letter of Credit and hold the cash as the Security.

Another Form

(a) In lieu of the cash security deposit referred to in _____ of this Lease, Tenant may deliver to Landlord, and shall maintain in effect at all times during the term of this Lease following delivery thereof, a "clean", unconditional, irrevocable and transferable standby letter of credit, in the form reasonably satisfactory to Landlord, in the stated amount of _____ (the "**LC Amount**"), issued by a bank ("**Bank**") reasonably satisfactory to Landlord, which is a member of the Federal New York Clearing House and which has a branch office located in the City of New York at which such letter of credit may be drawn. Such letter of credit shall have an expiration date no earlier than the first anniversary of the date of issuance thereof and shall provide that it shall be automatically renewed from year to year unless terminated by the Bank by notice to Landlord given not less than sixty (60) days prior to the then expiration date thereof by certified or registered mail, return receipt requested. The final expiration date of the letter of credit (including any renewals) shall be no earlier than the thirtieth (30th) day after the Expiration Date. Such letter of credit shall be issued for the account of the Landlord.

(b) If Landlord at any time, or from time to time, requests any reasonable change in the terms, conditions or provisions of such letter of credit (other than the LC Amount), Tenant shall promptly cause such letter of credit to be so modified at Tenant's sole cost and expense. If the letter of credit is lost, mutilated, stolen, or destroyed, Tenant shall cooperate with Landlord's efforts to cause the Bank to cancel the lost, mutilated, stolen or destroyed letter of credit and to replace such letter of credit.

(c) Landlord may draw on such letter of credit, in whole or in part (at Landlord's sole option), if: (i) Tenant defaults with respect of any of the terms, conditions or provisions of this Lease on the Tenant's part to be observed or performed, including but not limited to, the payment of rent or additional rent, and such default continues beyond the applicable grace period, if any, or (ii) Tenant, or anyone holding possession of the demised premises through Tenant, holds over in the demised premises after the expiration or sooner termination of the term of this Lease, or (iii) Landlord is given notice that the Bank is terminating such letter of credit, or (iv) such letter of credit expires as of a stated date by its terms and is not replaced with a

Exhibits – Letter of Credit

letter of credit meeting the criteria set forth in this Section at least thirty (30) days prior to such letter of credit's stated expiration date.

(d) Landlord may use, apply, or retain the proceeds of the letter of credit to the same extent Landlord may use, apply or retain the security deposit, as set forth in _____ of this Lease. If any of the proceeds of the letter of credit are not applied immediately to cure any default of Tenant, Landlord shall hold such unapplied proceeds as cash security in accordance with the provisions of Art. 34 and Section 5.7 of this lease. If Landlord partially draws down the letter of credit, Tenant shall, within ten (10) days after Landlord gives Tenant notice thereof, cause the amount of the letter of credit to be increased to the LC Amount, or substitute cash security instead. If Tenant fully and faithfully complies with all of the terms, covenants, and provisions of this Lease, any letter of credit, or any remaining portion of any sum collected by Landlord hereunder through a draw on such letter of credit, shall be returned to Tenant within thirty (30) days after the expiration date of this Lease and delivery of possession of the demised premises to Landlord in accordance with the provisions of this Lease.

(e) If the Property and/or Building are sold, or if the entire Building is ground leased or if another person or entity acquires Landlord's interest in this Lease, Landlord may transfer the security, including the letter of credit, to the new owner or lessee. If the security is so transferred, by operation of law or otherwise, Landlord shall thereupon be released by Tenant from all liability for the return of the security, including the letter of credit, and Tenant shall look solely to the new owner or lessee for the return of the security in accordance with the terms of this Lease. The provisions of this subparagraph shall apply to every such transfer or lease. If Landlord desires to transfer the letter of credit to such new owner or lessee, Tenant shall cooperate in effecting such transfer and shall reimburse the Landlord, as additional rent, within ten (10) days after being billed therefor, for any fee paid by Landlord to the Bank in connection with the transfer of such letter of credit.

(f) Tenant shall have the right to substitute one letter of credit for another if the substitute letter of credit meets the requirements of this _____ and is in form satisfactory to Landlord. In addition, Tenant shall substitute another letter of credit meeting the requirements of this _____ for the letter of credit held by Landlord if the Bank which has issued the letter of credit becomes insolvent or if the letter of credit is void, unenforceable, or uncollectible. If the Bank which has issued the letter of credit becomes unacceptable to Landlord, Tenant shall, within fifteen (15) days after notice is given Tenant by Landlord, deliver to Landlord either a substitute letter of credit meeting the requirements of this _____ or cash security, each to be in the LC Amount.

(g) To the extent not prohibited by law, Landlord shall be entitled to receive and retain annually as an administrative expense one percent (1%) of the LC Amount. Tenant shall pay same to Landlord as Additional Rent within thirty (30) days after being billed therefor by Landlord, which bill Landlord shall have the right to send to Tenant from time to time, as Landlord may determine.

I suggest you look at Joshua Stein's Lease Security Deposit Provision in his form lease appearing in the Third Edition of the New York State Bar Association's Commercial Leasing Treatise, Copyright 2017 (Joshua Stein, Esq., Editor in Chief), as it contains a Letter of Credit provision. The same Treatise includes a chapter on Letters of Credit with a form.

Exhibits – Guaranty

GOOD GUY” GUARANTY OF LEASE

This Good Guy Guaranty of Lease is dated as of the ____ day of _____, ____ (this “**Guaranty**”) and made by _____ a _____ having a having a business address at _____, and _____ a natural person having a residence address at _____, (collectively, “**Guarantor**”), to and in favor of _____, a _____, having a business address at _____ (the “**Landlord**”).

RECITALS

A. _____, a _____, with an address at _____ (“**Tenant**”) is simultaneously herewith entering into a Lease Agreement (the “**Lease**”) with Landlord at certain premises known as _____ at 3 _____ (the “**Demised Premises**”).

B. As a condition precedent to Landlord entering into the Lease of even date herewith, Landlord has required and Guarantor has agreed that it shall execute and deliver to Landlord this Guaranty.

C. Guarantor is _____ and, as a result, gains a material benefit from the Lease being executed and delivered.

D. All capitalized terms used herein shall have to the meaning ascribed to them in the Lease unless otherwise specifically set forth herein.

AGREEMENT

In consideration of, and as an inducement to, Landlord agreeing to the Lease and for such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor agrees as follows:

1. Guarantor guarantees to Landlord (A) the full and immediate payment of all Rent set forth in the Lease, (B) the due and punctual performance of all other obligations of the Tenant under the Lease, and (C) the full and immediate payment of all of Landlord’s fees, costs and expenses, including reasonable attorney’s fees, of enforcement of this Guaranty against Guarantor. The performance and payment provided for herein shall become immediately due and payable to Landlord upon receipt by Guarantor of Landlord’s demand therefor. Any payment by any Guarantor hereunder shall be made within five (5) calendar days after written demand for such payment is made by Landlord. If any Guarantor fails to make payment of any amount required to be paid by such Guarantor under this Guaranty when payment is due, interest shall accrue on the amount of the payment from and after the due date until payment is paid to Landlord at the lesser of (1) 20.00% per annum, or (2) the maximum amount permitted under applicable law.

2. Guarantor acknowledges and agrees that its liability hereunder shall be primary and that in any right of action which shall accrue to Landlord under the Lease, Landlord may, at its option, proceed against Guarantor and Tenant, jointly and severally, or against Guarantor under this Guaranty without commencing any suit or proceeding of any kind or nature whatsoever against Tenant or obtaining any judgment against Tenant. Guarantor hereby waives any notices other than the notices required under the Lease, diligence, presentment, demand of payment, notice of non-payment, notice of dishonor, protest, non-performance or non-observance, notice of acceptance of this Guaranty, filing of claims with a court in the event the merger or bankruptcy of Tenant, any right to require a proceeding first against Tenant or to realize on any collateral, protest, notice and all demands whatsoever, with respect to any of the obligations guaranteed hereunder by Guarantor.

Exhibits – Guaranty

3. Guarantor agrees that this Guaranty constitutes a guaranty of payment and not of collection and Guarantor's obligations are not in any way conditional or contingent upon any attempt to collect from or enforce against Tenant or upon any other condition or contingency. Guarantor furthermore acknowledges that Landlord's, and, subject to required consent of Landlord, Tenant's interest in the Lease may be transferred in whole or in part without affecting the validity or enforceability of this Guaranty and that the benefit of Guarantor's obligations hereunder shall extend to each successor and assign of Landlord automatically and without notice to Guarantor. The covenants under this Guaranty will not be discharged except by complete performance of the obligations contained in the Lease and this Guaranty.

4. Guarantor expressly agrees that this Guaranty shall be a continuing, absolute, unconditional guaranty with full recourse to Guarantor and not subject to any reduction, limitation, impairment, termination, defense, set-off, counterclaim or recoupment whatsoever. The validity of this Guaranty and the obligations and liability of Guarantor hereunder shall in no way be terminated, affected, modified, diminished or impaired by reason of (a) the assertion of the failure by Landlord to assert against Tenant any of the rights or remedies reserved to Landlord pursuant to the Lease, (b) any bankruptcy, insolvency, reorganization, dissolution, arrangement, assignment for the benefit of creditors, receivership or trusteeship affecting the Tenant or its successors or assigns under the Lease or of any other guarantor of the Lease or any surety, whether or not notice thereof is given to Guarantor, (c) the genuineness, validity, regularity or enforceability of the Lease, (d) any rescission, compromise, alteration, amendment, restatement, modification, extension, expiration, termination, renewal, release, change, waiver, consent or other action in respect of any of the terms, provisions, covenants or conditions contained in the Lease or any agreement, instrument or document securing the Lease, with or without notice to or assent from Guarantor, (e) the absence of notice or the absence of or any delay in action to enforce any obligation or to exercise any right or remedy against Tenant, or the Guarantor, or any other guarantor or surety, whether under the Lease or any agreement, instrument or document securing the Lease or under any other agreement instrument or document, or any indulgence, extension or waiver granted to or compromise with Tenant or the Guarantor, or any other guarantor or surety, (f) any assumption by any person or entity of any obligation under the Lease or any agreement, instrument or document securing the Lease, (g) any event of force majeure, (h) any release or substitution of any security or collateral for the Guaranty obligations or obligations under any guaranty, bond or other agreement, instrument or document, in whole or in part, with or without notice to or assent from Tenant or the Guarantor, (i) any extension of time, consent, indulgence, waiver or other action, inaction or omission under or concerning the Lease, (j) any dealings or transactions or matter or thing occurring between Landlord and Tenant, or (k) any other circumstance or condition that may grant or result in a discharge, limitation or reduction of liability of a surety or guarantor.

5. No delay on the part of Landlord in exercising any right, power or privilege under this Guaranty nor any failure to exercise the same shall operate as a waiver of or otherwise affect any right, power or privilege, nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

6. Guarantor shall at any time from time to time, within five (5) days following request by Landlord, execute, acknowledge and deliver to Landlord a statement certifying that this Guaranty is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating such modifications).

7. As a further inducement to Landlord to deliver the Lease and in consideration thereof, Guarantor covenants and agrees that in any action or proceeding brought on, under or by virtue of this Guaranty, Guarantor shall and hereby does waive trial by jury.

8. If, by reason of (a) the operation of any bankruptcy, insolvency, reorganization, arrangement, assignment for the benefit of creditors, receivership, trusteeship or other law for the relief of debtors, now or hereafter enacted, or (b) any judgment, decree or order of any court or administrative body having

Exhibits – Guaranty

jurisdiction over Tenant or Guarantor or any of their property, pursuant to or in connection with any such laws, any payment or performance or property received by Landlord on account of any obligation under the Lease or this Guaranty is required to be transferred, refunded or paid over to any party other than Landlord, or if Landlord should settle any claim with respect thereto, then, in such event, Guarantor agrees to pay Landlord the amount so required (or agreed in settlement) to be refunded, transferred, or paid over by Landlord and the obligations of the Guarantor under this Guaranty shall not be treated as having been discharged by reason of the payment or performance so refunded, transferred or paid over and Guarantor shall also be and remain liable to Landlord hereunder for any amounts not on account of the obligations guaranteed hereby. Landlord shall not be required to litigate or otherwise dispute its obligation to make such refund, transfer or payment if, in good faith and on the advice of counsel, it believes that such obligation exists. If Tenant becomes insolvent or shall be adjudicated a bankrupt or shall file for reorganization or similar relief or if such petition is filed by creditors of Tenant, under any present or future federal or state law or if the Lease is terminated or Tenant's obligations otherwise discharged in any bankruptcy proceeding, Guarantor's obligations hereunder may nevertheless be enforced against the Guarantor.

9. No waiver or modification of any provision of this Guaranty nor any termination of this Guaranty shall be effective unless in writing and signed by the party against which the waiver, modification or termination is sought to be enforced, nor shall any waiver be applicable except in the specific instance for which it is given.

10. The validity and enforcement of this Guaranty shall be governed by and construed in accordance with the internal laws of the State of New York without regard to principles of conflicts of law. Guarantor hereby irrevocably submits to the jurisdiction of any federal or state court sitting in the county in which the Demised Premises is located over any action or proceeding arising out of or related to this Guaranty and agrees that personal jurisdiction over Guarantor rests with such courts for purposes of any action on or related to this Guaranty. Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any manner provided by law. Guarantor further waives any objection to venue in any such action or proceeding on the basis of inconvenient forum. Guarantor agrees that any action on or proceeding brought against Landlord shall only be brought in such courts.

11. All notices, demands, requests, consents, approvals or other communications (collectively, "**Notices**") desired or required to be given under this Guaranty shall be in writing, and, any law or statute to the contrary notwithstanding, shall be effective for any purpose if given or served by hand or by prepaid certified or registered mail return receipt requested, addressed as follows:

If to Guarantor, to the Demised Premises with a copy to _____.

If to Landlord, to the Notice address set forth in the Lease.

All notices shall be deemed given or served on the day delivered, if hand delivered, or three (3) business days after being deposited in the United States mail, if mailed. Either party may change the address to which Notices shall be delivered by notice in accordance with this Paragraph.

12. This Guaranty shall be binding upon and inure to the benefit of Guarantor and Landlord and their respective heirs, successors and permitted assigns. Guarantor shall not assign its rights or obligations or delegate its duties under this Guaranty.

13. Any indebtedness or obligation of Tenant to Guarantor is hereby expressly subordinated as to priority of lien, time of payment and in all other respects to all sums at any time owing to Landlord under the Lease and Guarantor shall not be entitled to enforce or receive payment on account of such other indebtedness until all sums owing to Landlord have been paid. Any sums so received by Guarantor shall be held in trust for and paid over to Landlord.

Exhibits – Guaranty

14. All remedies afforded to Landlord by reason of this Guaranty are separate and cumulative remedies and it is agreed that no one remedy, whether exercised by Landlord or not shall be deemed to be in exclusion of any other remedy available to Landlord and shall not limit or prejudice any other legal or equitable remedy which Landlord may have.

15. If any provision of this Guaranty or the application thereof to any person or circumstance shall to any extent be held void, unenforceable or invalid, the remainder of this Guaranty and the application of such provision to persons or circumstances other than those as to which it is held void, unenforceable or invalid, shall not be affected thereby and each provision of this Guaranty shall be valid and enforceable to the fullest extent permitted by law.

16. If two or more individuals, corporations, partnerships or other business associations (or any combination of two or more thereof) shall sign this Guaranty as Guarantor, the liability of each such individual, corporation, partnership or other business association to pay any moneys and/or perform any and all other obligations hereunder shall be deemed to be joint and several and all notices, payments and agreements given or made by, with or to any one of such individuals, corporations, partnerships or other business associations shall be deemed to have been given or made by, with or to all of them. In like manner, if Guarantor shall be a partnership or other business association, the members of which are, by virtue of statute or federal law, subject to personal liability, the liability of each such member shall be joint and several.

17. Any security deposit under the Lease shall not be credited against amounts payable by Tenant or by Guarantor under the terms of this Guarantee. The acceptance by Landlord of payments under this Guarantee or the acceptance of a surrender of the Demised Premises shall not be deemed a release or waiver by Landlord of any obligation of the Tenant under the Lease.

18. Notwithstanding anything set forth in this “Good Guy” Guaranty of Lease to the contrary, the obligations of Guarantor under (A) and (B) of paragraph 1 of this “Good Guy” Guaranty of Lease shall terminate on the ninetieth (90th) day after Tenant and Guarantor have Notified Landlord that Tenant is surrendering the Premises to Landlord (the “**Ninetieth Day**”)(the purpose of such Notice being to allow the Guarantor to be released of its prospective obligations under (A) and (B) of paragraph 1 of this “Good Guy” Guaranty of Lease and not to release the Tenant of any its obligations under the Lease), provided (i) Tenant has surrendered and delivered vacant possession of the Premises to Landlord in the condition required by the Lease on the Expiration Date by the Ninetieth Day, which surrender and delivery shall include an original surrender agreement which has been signed by Tenant, is in a form reasonably acceptable to Landlord, and has been delivered to Landlord, and (ii) all Rent has been paid to Landlord up to and including the Ninetieth Day.

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Exhibits – Guaranty

Another good guy provision

Guarantor guarantees to Landlord (A) the full and immediate payment of all Rent set forth in the Lease (but not by acceleration) up to and including either (i) the date Tenant has surrendered and delivered vacant possession of the Demised Premises to Landlord, but only if (x) Tenant has given no less than ninety (90), and no more than one hundred (100), days advance notice to Landlord of its intent to so surrender and vacate, (y) Tenant in fact vacates and surrenders the Demised Premises to Landlord between such ninetieth (90th) and one hundredth (100th) day inclusive, and (z) Tenant has paid in full all Rent then due and owing under the Lease through such vacating and surrender date, or (ii) if Tenant has not provided such advance notice and/or has not so timely surrendered and vacated and/or Tenant has not so timely paid Rent in full, the date which is ninety (90) days following the date that Tenant has (xx) surrendered and delivered vacant possession of the Demised Premises to Landlord, and (yy) paid in full all Rent (aa) then due and owing under the Lease, and (bb) due and owing under the Lease for the ninety (90) day period occurring after such up-to-date Rent payment, vacating and surrender, (B) that Tenant shall deliver possession of the Demised Premises to Landlord in vacant, broom clean condition absent any repairs made necessary as a result of Tenant's removing any of its personal property therefrom, and (C) the full and immediate payment of all of Landlord's fees, costs and expenses, including reasonable attorney's fees, of enforcement of this Guaranty against Guarantor.

Using Josh Stein's Form

"GOOD GUY" GUARANTY OF LEASE

This **GUARANTY** (the "**Guaranty**") is made as of _____, 2018 (the "**Guaranty Date**") by _____, a natural person, whose address is _____, (with its successors and assigns, "**Guarantor**"), for the benefit of _____, a _____ whose address is _____ (with its successors and assigns, "**Landlord**"). Guarantor signs and delivers this Guaranty based on these facts:

I. Landlord is about to enter into _____ (as further defined below, the "**Lease**") with _____, a _____ (with its successors and assigns, "**Tenant**"), dated on or about the Guaranty Date.

II. The Lease initially demises premises designated as _____ (as modified from time to time in accordance with the Lease or by agreement between Landlord and Tenant, the "**Premises**").

III. Guarantor is the principal of Tenant.

IV. The Lease will therefore benefit Guarantor.

V. Landlord would not enter into the Lease unless Guarantor signed this Guaranty.

NOW, THEREFORE, in exchange for \$100 and other valuable consideration, receipt of which Guarantor acknowledges, and to induce Landlord to enter into the Lease, Guarantor agrees:

A. Definitions. Any term defined in the Lease has the same meaning in this Guaranty, except as expressly modified or superseded here. This Guaranty also uses these terms:

1. "**90th Day**" means the ninetieth (90th) day occurring after the date the Tenant has delivered an Advance Termination Notice to Landlord.

Exhibits – Guaranty

2. **“Advance Termination Notice”** means a written notice from Tenant to Landlord stating Tenant’s intention to deliver vacant possession of the entire Premises to Landlord in the condition the Lease requires at the end of the Term by the 90th Day.

3. **“Guarantied Obligations”** means all liabilities and obligations of Tenant under the Lease, in each case whether or not Tenant’s notice or cure period, if any, has ended. If a Guarantied Obligation arises only after notice to Tenant but Landlord cannot legally give notice to Tenant, then Landlord may at its option instead notify Guarantor. The Guarantied Obligation shall then be determined, for this Guaranty, as if Landlord had notified Tenant. If the Lease gives Tenant a right to contract, expand, extend or renew, or to acquire the Premises or an interest in Landlord, then the “Guarantied Obligations” include Tenant’s obligations from an exercise of that right, whether or not Guarantor consents. The Guarantied Obligations also include all obligations of Tenant to Landlord relating to the Premises and arising under landlord-tenant law, such as liability for holdover rent, damages, use and occupancy payments and rent for month-to-month occupancy after the Lease ends.

4. **“Insolvency Law”** means Title 11, United States Code, or other or successor state or federal statute on assignment for benefit of creditors, appointment of a receiver or bankruptcy, composition, insolvency, moratorium, reorganization, trustee appointment or similar matters.

5. **“Insolvency Proceeding”** means any proceeding (or appointment), voluntary or involuntary, under Insolvency Law.

6. **“Landlord Remedy(ies)”** means Landlord’s rights and remedies under the Lease or law, including Insolvency Law, including any right to terminate the Lease, evict Tenant, collect damages for default and apply or not apply any security deposit or letter of credit Tenant delivered.

7. **“Lease”** means: (a) the Lease, as initially defined above, as amended, assigned, extended or renewed from time to time, whether or not with Guarantor’s consent; and (b) Tenant’s obligations to Landlord under Law regarding the Premises, including after the Lease as defined above expires, terminates or otherwise ends. The **“Lease”** shall be defined without regard to any: (i) Insolvency Proceeding; (ii) resulting limitation, modification, reinstatement, rejection or termination of the Lease or Tenant’s obligations; or (iii) exercise of Landlord Remedies.

8. **“Legal Costs”** means Landlord’s actual reasonable costs of collection and legal representation for any actual or threatened: (a) Tenant default under any Guarantied Obligation; (b) Guarantor default or Landlord claim under this Guaranty; or (c) Proceeding. Those costs include reasonable attorneys’ fees, disbursements and other charges billed by Landlord’s attorneys, court costs and costs of process servers, private investigators and all other personnel whose services are charged to Landlord in connection with Landlord’s receipt of legal services. Legal Costs also include all other costs of collection.

9. **“Proceeding”** means any action, arbitration, counterclaim, litigation or other proceeding on, arising out of or relating to interpretation or enforcement of this Guaranty or the Lease, including a Tenant or Guarantor Insolvency Proceeding and any exercise of Landlord Remedies.

10. **“Tenant”** means: (a) Tenant as defined above; (b) any estate created through a Tenant Insolvency Proceeding; (c) any liquidator, receiver or trustee of Tenant or any of its property; (d) any similar person or officer, appointed in any Insolvency Proceeding or otherwise and (e) any heir, successor or assign of Tenant.

11. **“Tenant Occupant”** means Tenant and any person occupying or claiming any Premises by or through Tenant.

12. **“Termination Conditions”** means the following conditions: (a) all Tenant Occupants have vacated the Premises and Tenant has delivered vacant possession of the entire Premises to Landlord in the condition the Lease requires; (b) reserved; (c) all Tenant Occupants have surrendered

Exhibits – Guaranty

the Lease under surrender documentation in form and substance reasonably satisfactory to Landlord; (d) Tenant has performed all its Lease obligations arising from any construction Tenant initiated; and (e) all Rent accrued under the Lease to date has been paid, and all other obligations of Tenant accrued to date under the Lease (excluding any obligations calculated in whole or in part by any reference to obligations accruing or arising after the Termination Date) have been paid or performed.

13. “Termination Date” means the later of (i) provided Tenant has satisfied the Termination Conditions as of such date, the 90th Day, or (ii) if Tenant fails to provide the Advance Termination Notice or fails to surrender the Premises by the 90th Day or Tenant has not satisfied the Termination Conditions as of the 90th Day, the date ninety (90) days after the date when Tenant has satisfied the Termination Conditions so long as all Rent due under the Lease has been paid through that ninetieth (90) day.

B. Guaranty of Guaranteed Obligations. Guarantor absolutely, irrevocably and unconditionally guarantees Tenant’s timely payment and performance of all Guaranteed Obligations through the Termination Date. Guarantor covenants that Tenant will pay and perform all Guaranteed Obligations when and as the Lease requires. If Tenant does not do that, then Guarantor shall. For any Guaranteed Obligation, Guarantor shall pay all damages and losses that Landlord suffers and the Lease or Law entitles Landlord to recover, including Landlord’s Legal Costs, because Tenant fails timely to pay or perform. Guarantor’s liability under this Guaranty is primary, not secondary, in the full amount of the Guaranteed Obligations, including interest, default interest, late fees and costs and fees (including Legal Costs) relating to the Guaranteed Obligations. Any unpaid Guaranteed Obligation shall bear interest from the date it accrues until the date paid, both before and after entry of judgment, at the higher of: (a) the interest rate that applies after Default under the Lease; or (b) the judgment rate. If Landlord obtains a judgment against Tenant for any Guaranteed Obligation,

GUARANTY OF LEASE

This **GUARANTY OF LEASE** is dated as of the ____ day of _____ (this “**Guaranty**”) and made by _____, a _____ organized and existing under the laws of the State of _____, with a business address at _____ (each or collectively, “**Guarantor**”), to and in favor of _____, a _____ duly organized and existing under the laws of the State of New York, with a business address _____ (“**Landlord**”).

RECITALS

A. _____, a _____ organized and existing under the laws of the State of _____ with a place of business at _____ (“**Tenant**”) is simultaneously herewith entering into an Office Lease Agreement (the “**Lease**”) with Landlord for certain premises more specifically set forth in such lease and located in the building known as _____ (the “**Demised Premises**”).

B. As a condition precedent to Landlord entering into the Lease of even date herewith, Landlord has required and Guarantor has agreed that it shall execute and deliver this Guaranty to Landlord.

Exhibits – Guaranty

C. Guarantor is the sole owner/are the sole owners of the Equity Interests in the Tenant and, as a result, gains/gain a material benefit from the Lease being executed and delivered.

AGREEMENT

In consideration of, and as an inducement to, Landlord agreeing to the Lease and for such other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Guarantor agrees as follows:

Section 1. Definitions. As used in this Guaranty, the following terms have the following meanings (terms defined in the singular to have the same meaning when used in the plural and vice versa):

“Governmental Authority” means any nation or national government including the federal government of the United States of America, any state or state government, any municipality or municipal government, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, any other subdivision, council, department, branch or agency of any of the foregoing and any court, judge, administrator or tribunal exercising judicial or administrative functions.

“Guaranteed Obligations” means (a) any and all present and future liabilities, duties and obligations of Tenant to Landlord under any and all of the terms of the Lease, including (i) the full and immediate payment of all Rent and all other charges set forth in the Lease, and (ii) the due and punctual performance of all other obligations of the Tenant under the Lease, and (b) all Losses.

“Laws” means any present or future domestic or foreign, national, federal, state, provincial, local or municipal statute, law, rule, regulation, ordinance, order, code, decree, policy, requirement or rule of common law, now or hereafter in effect, in each case as amended, and any judicial or administrative interpretation thereof by a Governmental Authority or otherwise, including any judicial or administrative order, decree (including a consent decree or consent order), judgment or agreement with a Governmental Authority, and all permits, licenses, approvals and authorizations issued by a Governmental Authority, and including parking, zoning, building, subdivision and land use Laws.

“Losses” means any and all losses, damages, liability, costs and expenses incurred by Landlord in respect of or as a result of any or all claims, suits, liabilities (including strict liabilities), actions, demands, proceedings, enforcements, obligations, debts, damages (including punitive and consequential), fines, trials, penalties, charges, diminution of value, injury to a person, property or natural resources, fees (including attorney’s fees and all fees of any experts and other costs of defense or prosecutions or otherwise related thereto), judgments, accounts, orders, adjudications, awards, liens, injunctive relief, causes of action or amounts paid in settlement of whatever kind or nature arising out of the Lease or this Guaranty.

“Material Adverse Change” means either (1) a material adverse change in the status of a Person’s assets, liabilities, financial condition or property or (2) any event or occurrence of whatever nature which does or is reasonably likely to have a material adverse effect on the ability of a Person to perform such Person’s obligations.

“Person” means an individual, partnership (including a limited liability partnership and a general partnership), corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, Governmental Authority or other entity of whatever nature whatsoever, including Landlord.

Exhibits – Guaranty

Unless otherwise specified in this Guaranty, terms defined in the Lease which are used in this Guaranty will have the same meaning when used in this Guaranty. Guarantor acknowledges that Guarantor has received a copy of this Guaranty and the Lease.

Section 2. Rules of Interpretation.

When used in this Guaranty: (1) “or” is not exclusive, (2) any pronouns used shall include the corresponding masculine, feminine or neuter form, (3) the singular form of nouns and pronouns shall include the plural and vice versa and terms defined in the singular have the same meaning when used in the plural and vice versa, (4) a reference to a Law includes any present or future amendment or modification to such Law, (5) a reference to an agreement, instrument or document includes any present or future amendment or modification of such agreement, instrument or document, to the extent and provided that such amendment or modification is permitted by such agreement, instrument or document and is permitted under the Lease, and (6) the word “including” means “including, but not limited to,”.

Section 3. Guaranty.

(a) Guarantor hereby guarantees to Landlord and its successors, transferees and assigns the prompt and complete performance or payment, as the case may be, as and when due, of (1) all of the Guaranteed Obligations now existing or hereafter incurred or arising, and (2) all fees, costs and expenses of enforcement of this Guaranty against Guarantor. Guarantor hereby guarantees that the Guaranteed Obligations will be paid or performed, as the case may be, strictly in accordance with their terms.

(b) Guarantor acknowledges that, notwithstanding any other provision of this Guaranty or of the Lease to the contrary, the obligations of Guarantor under this Guaranty are irrevocable, unlimited, joint and several personal obligations of each and every Guarantor. Guarantor acknowledges that Landlord would not make the Lease but for the personal liability undertaken hereunder by Guarantor.

(c) The obligation of Guarantor under this Guaranty shall be limited to an aggregate amount equal to the largest amount that would not render the obligation of Guarantor under this Guaranty subject to avoidance under Section 548 of the United States Bankruptcy Code or any comparable provision of any applicable Law.

Section 4. Payments/Performance.

(a) Any payment by any Guarantor hereunder shall be made within five (5) calendar days after written demand for such payment is made by Landlord. If any Guarantor fails to make payment of any amount required to be paid by such Guarantor under this Guaranty when payment is due, interest shall accrue on the amount of the payment from and after the due date until payment is paid to Landlord at the lesser of (1) 20.00% per annum, or (2) the maximum amount permitted under applicable Law.

(b) All payments provided for hereunder shall be made to Landlord at its offices in accordance with Section 15, below, entitled “Notices”, in lawful money of the United States of America, in immediately available funds, and without defense, reservation, setoff or counterclaim of any nature.

(c) The performance provided for herein shall become immediately due to Landlord upon receipt by Guarantor of Landlord’s demand therefor.

Section 5. Type of Guaranty/Continuity of Guaranty/Reinstatement of Guaranty.

Exhibits – Guaranty

(a) This Guaranty is absolute and unconditional and as such is not subject to any conditions and Guarantor is fully liable to perform all of its duties and obligations under this Guaranty as of the date of execution of this Guaranty. This Guaranty is a continuing guaranty and applies to all future Guaranteed Obligations. In addition, this Guaranty shall remain in full force and effect even if at any time there are no outstanding Guaranteed Obligations. This Guaranty is a guaranty of payment and not of collection. The obligations and liabilities of Guarantor under this Guaranty shall not be conditioned or contingent upon the pursuit by Landlord of any other right or remedy, including (a) a right or remedy against (i) Tenant or any other Person (including any Guarantor) which may be or become liable in respect of all or any part of the Guaranteed Obligations, or (ii) any assets (including any Security) securing the payment of the Guaranteed Obligations, (b) any other guarantee for such Guaranteed Obligations, or (c) any right of setoff with respect to such Guaranteed Obligations.

(b) This Guaranty shall continue to be effective or shall be reinstated, as the case may be, if at any time any payment or performance, as the case may be, or any part thereof, of any of the Guaranteed Obligations are rescinded or must otherwise be returned by Landlord for any reason, including upon the insolvency, bankruptcy, dissolution, liquidation or reorganization of Guarantor or Tenant, all as though such payment had not been made. If, by reason of (a) the operation of any bankruptcy, insolvency, reorganization, arrangement, assignment for the benefit of creditors, receivership, trusteeship or other Laws for the relief of debtors, now or hereafter enacted, or (b) any judgment, decree or order of any court or administrative body having jurisdiction over Tenant or Guarantor or any of their property, pursuant to or in connection with any such Laws, any payment or performance or property received by Landlord on account of any obligation under the Lease or this Guaranty is required to be transferred, refunded or paid over to any party other than Landlord, or if Landlord should settle any claim with respect thereto, then, in such event, Guarantor agrees to pay Landlord the amount so required (or agreed in settlement) to be refunded, transferred, or paid over by Landlord and the obligations of the Guarantor under this Guaranty shall not be treated as having been discharged by reason of the payment or performance so refunded, transferred or paid over and Guarantor shall also be and remain liable to Landlord hereunder for any amounts not on account of the obligations guaranteed hereby. Landlord shall not be required to litigate or otherwise dispute its obligation to make such refund, transfer or payment if, in good faith and on the advice of counsel, it believes that such obligation exists.

(c) Guarantor hereby consents that, without the necessity of any reservation of rights against Guarantor and without notice to or further assent by Guarantor, any demand for payment or performance of any of the Guaranteed Obligations made by Landlord may be rescinded at any time by Landlord and any and all of such Guaranteed Obligations shall continue after such rescission.

(d) Guarantor acknowledges and agrees that its liability hereunder shall be primary and that in any right of action which shall accrue to Landlord under the Lease, Landlord may, at its option, proceed against Guarantor and Tenant, jointly and severally, or against Guarantor under this Guaranty without commencing any suit or proceeding of any kind or nature whatsoever against Tenant or obtaining any judgment against Tenant. Guarantor hereby waives any notices other than the notices required under the Lease, diligence, presentment, demand of payment, notice of non-payment, notice of dishonor, protest, non-performance or non-observance, notice of acceptance of this Guaranty, filing of claims with a court in the event the merger or bankruptcy of Tenant, any right to require a proceeding first against Tenant or to realize on any collateral, protest, notice and all demands whatsoever, with respect to any of the obligations guaranteed hereunder by Guarantor.

Exhibits – Guaranty

(e) Guarantor expressly agrees that this Guaranty shall be a continuing, absolute, unconditional guaranty with full recourse to Guarantor and not subject to any reduction, limitation, impairment, termination, defense, set-off, counterclaim or recoupment whatsoever, unless specifically required under Section 3(c).

Section 6. Survival.

Notwithstanding anything to the contrary contained in this Guaranty or in the Lease, this Guaranty shall continue in full force and effect after the termination of the Lease as the result of an Event of Default or the exercise by Landlord of any of the remedies available under the Lease, at Law, in equity or otherwise, with respect to any of the Guaranteed Obligations, whether incurred prior to or subsequent to such termination. **WITHOUT IN ANY WAY LIMITING THE ABOVE, IT IS EXPRESSLY UNDERSTOOD THAT GUARANTOR'S DUTY(IES) AND OBLIGATIONS HEREUNDER TO LANDLORD SHALL SURVIVE ANY JUDICIAL OR NONJUDICIAL TERMINATION OF THE LEASE.**

Section 7. Representations.

Guarantor represents and warrants to Landlord as follows:

7.1. **No Contravention.** The execution, delivery and performance by Guarantor of this Guaranty do not and will not (a) violate any provision of any Law, order, writ, judgment, injunction, decree, determination, or award presently in effect applicable to Guarantor, (b) result in a breach of or constitute a default under any indenture or loan or credit agreement or any other agreement, lease, or instrument to which Guarantor is a party or by which Guarantor or its properties may be bound or affected, or (c) result in, or require, the creation or imposition of any lien upon or with respect to any of the properties now owned or hereafter acquired by Guarantor.

7.2 **Governmental Authority.** No authorization, approval or other action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by Guarantor of this Guaranty.

7.3 **Legally Enforceable Guaranty.** This Guaranty is the legal, valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with its terms, except to the extent that such enforcement may be limited by (a) applicable bankruptcy or insolvency of Guarantor, and other similar Laws affecting creditors' rights generally, or (b) general equitable principles, regardless of whether the issue of enforceability is considered in a proceeding in equity or at Law. The validity of this Guaranty and the obligations and liability of Guarantor hereunder shall in no way be terminated, affected, modified, diminished or impaired by reason of, without limitation, (a) the assertion of the failure by Landlord to assert against Tenant any of the rights or remedies reserved to Landlord pursuant to the Lease, (b) any bankruptcy, insolvency, reorganization, dissolution, arrangement, assignment for the benefit of creditors, receivership or trusteeship affecting the Tenant or its successors or assigns under the Lease or of any other guarantor of the Lease or any surety, whether or not notice thereof is given to Guarantor, (c) the genuineness, validity, regularity or enforceability of the Lease, (d) any rescission, compromise, alteration, amendment, restatement, modification, extension, expiration, termination, renewal, release, change, waiver, consent or other action in respect of any of the terms, provisions, covenants or conditions contained in the Lease or any agreement, instrument or document securing the Lease, with or without notice to or assent from Guarantor, (e) the absence of notice or the absence of or any delay in action to enforce any obligation or to exercise any right or remedy against Tenant, or the Guarantor, or any other guarantor or surety, whether under the Lease or any agreement, instrument or document securing the Lease or under any other agreement instrument or document, or any indulgence, extension or waiver granted to or compromise with Tenant or

Exhibits – Guaranty

the Guarantor, or any other guarantor or surety, (f) any assumption by any person of any obligation under the Lease or any agreement, instrument or document securing the Lease, (g) any event of Force Majeure, (h) any release or substitution of any security or collateral for the Guaranty obligations or obligations under any guaranty, bond or other agreement, instrument or document, in whole or in part, with or without notice to or assent from Tenant or the Guarantor, (i) any extension of time, consent, indulgence, waiver or other action, inaction or omission under or concerning the Lease, (j) any dealings or transactions or matter or thing occurring between Landlord and Tenant, or (k) any other circumstance or condition that may grant or result in a discharge, limitation or reduction of liability of a surety or guarantor.

Section 8. Waiver of Notices.

Guarantor hereby waives any and all notices including (1) notice of or proof of reliance by Landlord upon this Guaranty or acceptance of this Guaranty, (2) notice of the incurrence of any Guaranteed Obligations or any modification thereof, including any renewal, extension, modification, consolidation, advance, increase, assumption, subordination, participation, assignment or accrual of any Guaranteed Obligations, (3) notice of any actions taken by Landlord or Tenant or any other Person under the Lease, and (4) notices of Default, Event of Default or nonperformance.

Section 9. Waiver of Defenses.

(a) Guarantor hereby waives any and all defenses to the performance by Guarantor of its duties and obligations under this Guaranty, including any defense based on any of the following:

9.1 any failure of Landlord to disclose to Guarantor any information relating to the business, condition (financial or otherwise), operations, performance, properties or prospects of any party obligated under the Lease, whether as principal, guarantor or indemnitor, now or hereafter known to Landlord, including any information relating to Tenant, the Demised Premises or any other circumstances bearing on Tenant's ability to perform the Guaranteed Obligations,

9.2 any defense to the payment or performance of any or all the Guaranteed Obligations, including illegality, lack of validity or enforceability of any of the Guaranteed Obligations or the Lease,

9.3 any change in the time, manner or place of payment of, or in any other term in respect of, all or any of the Guaranteed Obligations, or any other amendment or waiver of or consent to any departure from or any modification to the Lease,

9.4 any exchange or release of, or non-perfection of any security interest on or in, any assets, including the Security, securing the payment or performance of the Guaranteed Obligations,

9.5 any failure to execute any other guaranty for all or any part of the Guaranteed Obligations, or any release, amendment or waiver of, or consent to any departure from, any other guaranty for any or all of the Guaranteed Obligations, or the release of any obligor in respect of the Guaranteed Obligations,

9.6 any act or omission of Landlord in connection with the enforcement of, or the exercise of rights and remedies, including any election of, or the order of exercising, any remedies with respect to (a) the Guaranteed Obligations, including the assertion of the failure by Landlord to assert against Tenant any of the rights or remedies reserved to Landlord pursuant to the Lease, (b) any other guarantor of all or any part of the Guaranteed Obligations, or (c) any assets, including the Security, securing the payment or performance of the Guaranteed Obligations,

Exhibits – Guaranty

9.7 any failure to give or provide any notices, demands or protests of any kind including those specified under “Waiver of Notices” (Section 8),

9.8 the defense of the statute of limitation in any action under this Guaranty or for the collection or the performance of the Guaranteed Obligations,

9.9 any subordination of any or all of the Guaranteed Obligations,

9.10 any manner of application of any funds received by Landlord to the Guaranteed Obligations or any other obligations owed to Landlord, whether from the sale or disposition of any assets securing the Guaranteed Obligations, from another guarantor of the Guaranteed Obligations, or otherwise,

9.11 any defense that may arise by reason of (a) the incapacity, lack of authority, death or disability of any Guarantor, or any other Person, (b) the revocation or repudiation of this Guaranty by any Guarantor, or the revocation or repudiation of the Lease by any other Person, or (c) the failure of Landlord to file or enforce a claim against the estate (either in administration, bankruptcy or any other proceeding) of any Guarantor or any other Person,

9.12 any sale or transfer of all or any part of the Project;

9.13 all homestead exemption rights against the obligations under this Guaranty;

9.14 any statute or rule of Law which provides that the obligation of a surety must be neither larger in amount nor in any other respects more burdensome than that of a principal;

9.15 Landlord’s election, in any proceeding instituted under the Federal Bankruptcy Code, of the application of Section 1111(b)(2) of the Federal Bankruptcy Code or any successor statute;

9.16 any borrowing or any grant of a security interest under Section 364 of the Federal Bankruptcy Code; and

9.17 any right of subrogation, any right to enforce any remedy which Landlord may have against Tenant, and any right to participate in, or benefit from, any security for the Lease now or hereafter held by Landlord.

(b) Guarantor further waives any and all rights and defenses that any Guarantor may have because the Guaranteed Obligations may be wholly or partially secured; this means, among other things, that: (1) Landlord may collect from any Guarantor without first crediting any Security provided by Tenant; (2) if Landlord first credits any Security provided by Tenant, then (A) the amount of the monetary portion of the Guaranteed Obligations may be reduced only by the amount of any Security provided by Tenant (but only if Tenant is not obligated to replenish the same), and (B) Landlord may collect from any Guarantor even if Landlord, by utilizing any Security provided by Tenant, has destroyed or limited any right any Guarantor may have to collect from Tenant. The foregoing sentence is an unconditional and irrevocable waiver of any rights and defenses that any Guarantor may have because the Guaranteed Obligations are secured by any Security provided by Tenant. These rights and defenses being waived by Guarantor include, but are not limited to, any rights or defenses based upon subrogation, reimbursement, indemnification and contribution. In addition, Guarantor agrees that the performance of any act or any payment which tolls any statute of limitations applicable to the Lease shall similarly operate to toll the statute of limitations applicable to the Guarantor’s liability hereunder. Guarantor understands that Guarantor’s duties,

Exhibits – Guaranty

obligations and liabilities under this Guaranty are not limited in any way by any information (whether obtained from Tenant, from any Guarantor, or from Landlord's own investigations) which Landlord may have concerning the Demised Premises.

(c) Guarantor waives any right to, and agrees not to, assert a counterclaim, other than a mandatory or compulsory counterclaim (unless Landlord agrees in writing not to assert such waiver, in which event Tenant may assert any such claim in a separate action), in any action or proceeding brought against or by Landlord. Tenant acknowledges this right gives Tenant an adequate remedy.

(d) Guarantor hereby acknowledges that: (a) the obligations undertaken by Guarantor in this Guaranty are complex in nature, and (b) numerous possible defenses to the enforceability of these obligations may presently exist or may arise hereafter, and (c) as part of Landlord's consideration for entering into this transaction, Landlord has specifically bargained for the waiver and relinquishment by Guarantor of all such defenses, and (d) Guarantor has had the opportunity to seek and receive legal advice from skilled legal counsel in the area of transactions of the type contemplated herein. Given all of the above, Guarantor does hereby represent and confirm to Landlord that Guarantor is fully informed regarding, and that Guarantor does thoroughly understand: (i) the nature of all such possible defenses, and (ii) the circumstances under which such defenses may arise, and (iii) the benefits which such defenses might confer upon Guarantor, and (iv) the legal consequences to Guarantor of waiving such defenses. Guarantor acknowledges that it makes this Guaranty with the intent that this Guaranty and all of the informed waivers herein shall each and all be fully enforceable by Landlord, and that Landlord is induced to enter into this transaction in material reliance upon the presumed full enforceability thereof.

Section 10. Subrogation.

Guarantor may not exercise any rights which Guarantor may acquire by way of subrogation or contribution, whether acquired by any payment or performance made under this Guaranty, by any setoff or application of funds of Tenant by Landlord, or otherwise, until (1) the payment or performance and other satisfaction in full of the Guaranteed Obligations, and (2) the payment of all fees and expenses to be paid by Guarantor pursuant to this Guaranty. If any amount shall be paid to Guarantor on account of such subrogation or contribution rights at any time when all of the Guaranteed Obligations and all such other expenses shall not have been paid in full, such amount shall be held in trust for the benefit of Landlord, shall be segregated from the other funds of Guarantor, and shall forthwith be paid over to Landlord to be credited and applied in whole or in part by Landlord against the Guaranteed Obligations, whether matured or unmatured, and all such other costs, fees, charges, expenses or other amounts due under and in accordance with the terms of the Lease.

Section 11. Reporting Requirements.

Guarantor will provide immediate notice to Landlord if (1) any representation and warranty included in this Guaranty would no longer be true if made on such date, or (2) there is a Material Adverse Change regarding Guarantor. Guarantor shall furnish to Landlord from time to time such information regarding Guarantor as Landlord may reasonably request including any documentation or reports relating to any Guarantor which Tenant is required to furnish to Landlord under the Lease.

Section 12. Remedies.

Landlord shall not, by any act, delay, omission or otherwise, be deemed to have waived any of its rights or remedies under this Guaranty or otherwise. A waiver by Landlord of any right or remedy hereunder on any one occasion, shall not be construed as a ban or waiver of any such right or remedy which Landlord would have had on any future occasion, nor shall Landlord be liable for exercising or failing to exercise any such

Exhibits – Guaranty

right or remedy. The rights and remedies of Landlord under this Guaranty are cumulative and, as such, are in addition to any other rights and remedies available to Landlord under Law or any other agreements.

Section 13. Indemnity and Expenses.

Guarantor hereby indemnifies Landlord from and against any and all claims, Losses, damages and liabilities growing out of, in connection with, arising under or resulting from this Guaranty (including enforcement of this Guaranty), except claims, losses, damages or liabilities solely resulting from Landlord's gross negligence and willful misconduct. The obligations of Guarantor under this Guaranty shall specifically include, without limitation, the obligation to expend Guarantor's own funds, to incur costs in Guarantor's own name(s) and to perform all actions as may be necessary to protect the Landlord from the necessity of expending Landlord's own funds, incurring costs or performing any actions in connection with the matters for which Landlord is entitled to collect or to be paid or be reimbursed pursuant to this Guaranty, and, if Landlord nonetheless expends its own funds or incurs any such cost or expense, to immediately pay or reimburse Landlord therefor.

Section 14. Amendments.

No amendment or waiver of any provision of this Guaranty, nor consent to any departure by Guarantor from this Guaranty, shall in any event be effective unless the same shall be in writing and signed by the party against whom enforcement thereof is sought, and then such amendment or waiver shall be effective only in the specific instance and for the specific purpose for which given.

Section 15. Notices.

Notice to any party shall be made in writing, and shall be served by (a) personal delivery to the recipient, (b) reserved, (c) United States Postal Service-certified mail-return receipt requested (postage prepaid) or (d) reliable overnight public express mail service that keeps a record of its deliveries (for next business day delivery), and sent to the addresses set forth below:

If to Guarantor: _____.

If to Landlord: _____.

or such other address as may hereafter be furnished to the other party by like notice. Any such notice shall be deemed to have been given (a), if by personal delivery, on the day of delivery, (b), if sent via United States Postal Service, on the fifth (5th) day following posting of same with a United States Post Office and (c), if sent by overnight public express mail, on the next business day.

Section 16. Assignment and Transfer of Obligations.

This Guaranty will bind the estate of Guarantor as to all Guaranteed Obligations in existence, created or incurred both before and after the death or incapacity of Guarantor, whether or not Landlord receives notice of such death or incapacity. This Guaranty shall inure to the benefit of Landlord and its successors, transferees and assigns. Guarantor may not transfer or assign its obligations under this Guaranty. Landlord may assign or otherwise transfer all or a portion of its rights or obligations with respect to the Guaranteed Obligations to any other party to whom the Lease is transferred, and such other party shall then become vested with all the benefits in respect of such transferred Guaranteed Obligations granted to Landlord in this Guaranty or otherwise. Guarantor agrees that Landlord can provide information regarding Guarantor to any prospective or actual successor, transferee or assign.

Section 17. Remedies.

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All remedies afforded to Landlord by reason of this Guaranty are separate and cumulative remedies and it is agreed that no one remedy, whether exercised by Landlord or not shall be deemed to be in exclusion of any other remedy available to Landlord and shall not limit or prejudice any other legal or equitable remedy which Landlord may have.

Section 18. Submission to Jurisdiction.

Guarantor hereby irrevocably submits to the jurisdiction of any federal or state court sitting in the county in which the Demised Premises is located over any action or proceeding arising out of or related to this Guaranty and agrees with Landlord that personal jurisdiction over Guarantor rests with such courts for purposes of any action on or related to this Guaranty. Guarantor hereby waives personal service by manual delivery or in-hand delivery and agrees that service of process may be made by means of notice given in accordance with Section 15 of this Guaranty, and that upon the giving of such notice in accordance with Section 15 hereof, such service will be effective as if such Guarantor was personally served. Guarantor agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any manner provided by Law. Guarantor further waives any objection to venue in any such action or proceeding on the basis of inconvenient forum. Guarantor agrees that any action on or proceeding brought against Landlord shall only be brought in such courts.

Section 19. Governing Law.

This Guaranty shall be governed by and construed in accordance with the Laws of the State in which the Demised Premises is located.

Section 20. Subordination.

Guarantor will not until the Expiration Date and the complete satisfaction of all Guaranteed Obligations (1) make any demand for payment of, or take any action to accelerate, any obligation owed to Guarantor by Tenant, (2) seek to collect payment of, or enforce any right or remedies against Tenant, any of the obligations owed to Guarantor by Tenant or any guarantees, credit supports, collateral or other security related to or supporting any of such obligations, or (3) commence, or join with any other creditor in commencing, any bankruptcy or similar proceeding against Tenant. Guarantor also agrees that the payment of all obligations of Tenant to Guarantor shall be subordinate and junior in time and right of payment in accordance with the terms of this Section to the prior full satisfaction of the Guaranteed Obligations. In furtherance of such subordination, (1) to the extent possible, Guarantor will not take or receive from Tenant any payments, in cash or any other property, by setoff or any other means, of any or all of the obligations owed to Guarantor by Tenant, or purchase, redeem, or otherwise acquire any of such obligations, or change the terms or provisions of any such obligations, and (2) if for any reason and under any circumstance Guarantor receives a payment on such obligation, whether in a bankruptcy or similar proceeding or otherwise, all such payments or distributions upon or with respect to such obligations shall be received in trust for the benefit of Landlord, shall be segregated from other funds and property held by Guarantor and shall be forthwith paid over to Landlord in the same form as so received (with any necessary endorsement) to be applied (in the case of cash) to, or held as collateral (in the case of securities or other non-cash property) for, the payment or prepayment of the Guaranteed Obligations.

Section 21. Miscellaneous.

This Guaranty is in addition to and not in limitation of any other rights and remedies Landlord may have by virtue of any other instrument or agreement previously, contemporaneously or hereafter executed by Guarantor or any other party or by Law or otherwise. If any provision of this Guaranty is contrary to applicable Law, such provision shall be deemed ineffective without invalidating the remaining provisions of this Guaranty. Titles in this Guaranty are for convenience of reference only and shall not affect the interpretation or construction of this Guaranty. This Guaranty constitutes the entire agreement between

Exhibits – Guaranty

Guarantor and Landlord with respect to the matters covered by this Guaranty and supercedes all written or oral agreements with respect to such matters.

Guarantor has taken all necessary action to authorize the execution, delivery and performance of this Guaranty and has the power and authority to execute, deliver and perform this Guaranty. The person signing this Guaranty on behalf of Guarantor is authorized to do so. This Guaranty and all obligations of Guarantor hereunder are the legal, valid and binding obligations of Guarantor, enforceable in accordance with the terms of this Guaranty, except as such enforcement may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting the enforcement of creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

The execution and delivery of this Guaranty the performance of its obligations hereunder by Guarantor will not conflict with any provision of any law or regulation to which Guarantor is subject or any agreement or instrument to which Guarantor is a party or by which it is bound or any order or decree applicable to Guarantor or result in the creation or imposition of any lien on any of Guarantor's assets or property which would adversely affect the ability of Guarantor to carry out the terms of this Guaranty. Guarantor has obtained any consent, approval, authorization or order of any court or governmental agency or body required for the execution, delivery or performance by Guarantor of this Guaranty.

Guarantor is not a, and is not acting directly or indirectly for or on behalf of any, person, group, entity or nation named by any Executive Order of the United States Treasury Department as a terrorist, "Specifically Designated National and Blocked Persons," or other banned or blocked person, entity, nation or transaction pursuant to any law, order, rule or regulation that is enforced or administered by the Office of Foreign Assets Control and Guarantor is not engaged in this transaction, directly or indirectly on behalf of, or instigating or facilitating this transaction, directly or indirectly, on behalf of any such person, group, entity, or nation.

Guarantor specifically acknowledges the provisions of the Lease concerning Transfers, including Exempt Transfers, Assignments to a Successor of Tenant, and subleases to Related Entities, and agrees that it shall fully cooperate with Landlord in connection with any and all such Transfers.

Any Security under the Lease shall not be credited against amounts payable by Tenant or by Guarantor under the terms of this Guaranty. The acceptance by Landlord of payments under this Guaranty or the acceptance of a surrender of the Demised Premises shall not be deemed a release or waiver by Landlord of any obligation of the Tenant under the Lease.

Section 22. Further Assurances.

At any time and from time to time, upon Landlord's prior written request, Guarantor shall make, execute and deliver, or cause to be made, executed and delivered, to Landlord in order to effectuate, or to continue and preserve the obligations of such Guarantor under this Guaranty, such documents or instruments as Landlord may request.

Section 23. Duplicate Originals.

This Guaranty may be executed in any number of duplicate originals and each duplicate original shall be deemed to be an original. The failure of any party hereto to execute this Guaranty, or any counterpart hereof, shall not relieve the other signatories from their obligations hereunder. A copy of this Guaranty bearing a facsimile or photocopied signature or a signature transmitted by email, scan or other digital or electronic means shall have the same force and effect as one with an original ink signature of the Guarantor.

Exhibits – Guaranty

Section 24. WAIVER OF TRIAL BY JURY.

GUARANTOR AND LANDLORD (A) AGREE NOT TO ELECT A TRIAL BY JURY WITH RESPECT TO ANY ISSUE ARISING OUT OF THIS GUARANTY THAT IS TRIABLE OF RIGHT BY A JURY AND (B) WAIVE ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY SUCH ISSUE TO THE EXTENT THAT ANY SUCH RIGHT EXISTS NOW OR IN THE FUTURE. THIS WAIVER OF RIGHT TO TRIAL BY JURY IS SEPARATELY GIVEN BY EACH PARTY, KNOWINGLY AND VOLUNTARILY WITH THE BENEFIT OF COMPETENT LEGAL COUNSEL.

Section 25. Reserved.

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Execution Page Follows**

I suggest you look at Joshua Stein’s Article and Form of Guaranty and Article Relating to the same appearing in the Third Edition of the New York State Bar Association’s Commercial Leasing Treatise, Copyright 2017 (Joshua Stein, Esq., Editor in Chief).

Exhibits – Forms of Letter of Credit

LC Forms ISP98 from Website

ISP98 Model Forms*

1 – Model Standby Incorporating Annexed Form of Payment Demand with Statement

2 – Model Standby Providing for Extension and Incorporating Annexed Form of Payment Demand with Alternative Non-Extension Statement

3 – Model Standby Providing for Reduction and Incorporating Annexed Form of Reduction Demand

4 – Model Standby Providing for Transfer and Incorporating Annexed Form of Transfer Demand

5 - Simplified Demand Only Standby

6 – Model Counter Standby with Annexed Form of Local Bank Undertaking

7 – Model Standby Requiring Confirmation

8 – Model Confirmation of Standby

11.1 – Model Government Standby Form

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These forms are published for educational purposes and not as legal or professional advice. Potential users should consult with their own advisers in the drafting or use of a standby letter of credit. ISP98 and letter of credit educational and training materials, including *The Official Commentary on the International Standby Practices* containing official interpretations of ISP98, are available from IIBLP at www.iiblp.org.

The Model Forms are subject to revision according to developments in standby practice. The date of the most recent revision of each Model Form is noted in its title and text.

ISP98 Form 1
Model Standby Incorporating Annexed
Form of Payment Demand with Statement*

[name and address of beneficiary]

[date of issuance]

Issuance. At the request and for the account of **[name and address of applicant]** (“Applicant”),¹ we **[name and address of issuer at place of issuance]** (“Issuer”) issue ² this irrevocable³ standby letter of credit number **[reference number]** (“Standby”)⁴ in favour of **[name and address of beneficiary]** (“Beneficiary”)⁵ in the maximum aggregate amount⁶ of **[currency/amount]**.

Undertaking. Issuer undertakes to Beneficiary⁷ to pay⁸ Beneficiary’s demand for payment in the currency and for an amount available under this Standby⁹ and in the form of the Annexed Payment Demand completed as indicated¹⁰ and presented¹¹ to Issuer at the following place for presentation: **[address of place for presentation]**,¹² on or before the expiration date.¹³

Expiration. The expiration date of this Standby is **[date]**.¹⁴

*[Payment. Payment against a complying presentation shall be made within 3 business days¹⁵ after presentation at the place for presentation or by wire transfer to a duly requested account of Beneficiary. An advice of such payment shall be sent to Beneficiary’s above-stated address.]*¹⁶

*[Drawing. Partial and multiple drawings are permitted.]*¹⁷

*[Reduction. Any payment made under this Standby shall reduce the amount available under it.]*¹⁸

ISP98. This Standby is issued subject to the International Standby Practices 1998 (ISP98) (International Chamber of Commerce Publication No. 590).¹⁹

*[Communications. Communications other than demands may be made to Issuer by telephone, telefax, or SWIFT message, to the following: **[numbers/addresses]**. Beneficiary requests for amendment of this Standby, including amendment to reflect a change in Beneficiary’s address, should be made to Applicant, who may then request Issuer to issue the desired amendment.]*²⁰

[Issuer’s name]

[signature]

Authorized Signature

Annexed Payment Demand

[INSERT DATE]²¹

[name and address of Issuer or other addressee at place of presentation as stated in standby]²²

Re: Standby Letter of Credit No. **[reference number]**, dated **[date]**, issued by **[Issuer's name]** ("Standby")²³

The undersigned Beneficiary demands payment of [INSERT CURRENCY/AMOUNT] under the Standby.²⁴

Beneficiary states²⁵ that Applicant²⁶ is obligated²⁷ to pay to Beneficiary the amount demanded[, *which amount is due and unpaid*²⁸] under[*or in connection with*] the agreement²⁹ between Beneficiary and Applicant³⁰ titled **[agreement title]** and dated **[date]**.

[Beneficiary further states that the proceeds³¹ from this demand will be used to satisfy³² the above-identified obligations and that Beneficiary will account to Applicant³³ for any proceeds that are not so used.]

Beneficiary requests that payment be made by wire transfer to an account of Beneficiary as follows: [INSERT NAME, ADDRESS, AND ROUTING NUMBER OF BENEFICIARY'S BANK, AND NAME AND NUMBER OF BENEFICIARY'S ACCOUNT].³⁴

[Beneficiary's name and address]³⁵

By its authorized officer:

[INSERT ORIGINAL SIGNATURE]³⁶
[INSERT TYPED/PRINTED NAME AND TITLE]

[Before the standby is issued, all text in **[bold]** should be completed, and optional text in *[italics]* should be included or deleted (or redrafted). Text in the annexed demand form preceded by "INSERT" (or other ALL CAPITALS guidance) and in [ALL CAPITALS UNDERLINED] is to be completed as indicated when the beneficiary prepares and presents a demand.]

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This ISP98 Form 1 model standby includes terms that ISP98 indicates should be included in a standby. It includes terms that restate other ISP98 rules for the avoidance of doubt, e.g., that the standby is irrevocable and permits partial demands. It uses words, phrases, and spellings that are

used in ISP98. It also includes optional terms that are specific about when and how payment will be made.

This ISP98 Form 1 incorporates an annexed model form of payment demand that includes terms that ISP98 indicates should be included when making a presentation. This demand form also includes beneficiary statements of a type the applicant or beneficiary may desire in order to identify the underlying obligation(s) to be supported by the standby (and to be satisfied upon honour of the standby).

The annexed demand form may also be used as a precedent by a beneficiary preparing a demand to be presented under an ISP98 standby that does not specify the entire form of demand to be presented. See ISP98 Form 5 (Simplified Demand Only Standby).

This ISP98 Form 1 is intended to be self-contained and, absent special circumstances, useable without extended reference to the text of ISP98.

The endnotes to this form include alternative and other optional terms, as well as references to relevant ISP98 rules. Other ISP98 model standby forms vary this form, e.g., by adding text and annexes (with relevant endnotes) that focus on expiration, reduction, transfer, confirmation, and counter standby support.

This form is published for educational purposes and not as legal or professional advice. Potential users should consult with their own advisers in the drafting or use of a standby letter of credit. ISP98 and letter of credit educational and training materials, including *The Official Commentary on the International Standby Practices* containing official interpretations of ISP98, are available from IIBLP at www.iiblp.org.

¹ Applicant. As noted in ISP98 Rule 1.09(a) (Definitions), the “applicant” is the person who applies for issuance or for whose account the standby is issued. Typically, the applicant stated in the standby is the person whose underlying obligation is supported by the standby. The standby’s terms should be appropriate to support those underlying obligations, and the underlying documentation should appropriately provide for the standby and for the use of funds paid under the standby.

Where a standby is issued on the application of a correspondent bank from whom the issuer expects reimbursement, consideration should be given to an alternative clause: “At the request and for the account of **[name of correspondent bank]**, (“Applicant”) acting at the request and for the account of its customer, **[XYZ]**...”. Similarly, where a standby is issued on the application of a parent company, consideration should be given to an alternative clause: “At the request and for the account of **[Parent]** (“Applicant”) acting at the request and for the account of its subsidiary **[name]**...”.

This standby form adds “(“Applicant”)” after the name of the applicant, and that defined term is used in the annexed model demand form. If this parenthetical definition (or the parenthetical definition for the issuer or the beneficiary) is not wanted, appropriate adjustments should be made in the standby, including in any statement required to be included with any beneficiary demand. If an adjustment is made because the applicant is not also the underlying obligor (or the beneficiary is not also the underlying obligee), then the adjustments should be made in the standby and also in the documentation underlying the standby. See endnote 30.

Except for endnotes 1 and 30, these endnotes do not address issues that may arise where the applicant is not the underlying obligor or where there are multiple applicants.

² Issuance. The name of the issuer and the place(s) of issuance and presentation should be indicated in the standby. The indicated place of issuance is significant in determining what law governs the issuer’s obligations. Absent an indication of the place of issuance in the standby, it may prove difficult to determine a single place of issuance, even with full knowledge of the process resulting in sending the standby to the beneficiary. This form, including endnotes, does not address the possibility, briefly addressed in ISP98 Rule 10 (Syndication/Participation), of multiple issuers or of participating interests in a single issuer’s standby facility.

Rule 2.03 (Conditions to Issuance) provides generally that a standby is issued when it leaves the issuer’s control, and Rule 3.05 (When Timely Presentation Made) allows presentation any time after issuance (and before expiry) It is customary for a standby to recite the issuance date either at the top of the undertaking or in the first paragraph of the text (or both).

³ Irrevocability. It is unnecessary to state that an ISP98 standby is irrevocable. See ISP98 Rule 1.06(a) and (b) (Nature of Standbys). However, because of the contrary rule in UCP82 (1933) until UCP500 (1993), some letter of credit users expect or require inclusion of the word “irrevocable”.

⁴ Name of undertaking. While this form of undertaking is named a “standby letter of credit”, the name is not determinative of its character as an undertaking within the scope of ISP98 or as an independent undertaking under applicable law. As provided in ISP98 Rule 1.01(b) (Scope and Application), it could be called an independent guarantee, bank guarantee, bond, or any other name.

⁵ Beneficiary. The beneficiary named in a standby is the person to whom the issuer’s obligation is owed. Typically, there is one named beneficiary of the issuer’s undertaking, who is also the obligee of the applicant’s obligation that is supported by the standby. This standby form, including endnotes, does not address issues that may arise where the named beneficiary is not the underlying obligee or where there are multiple beneficiaries.

⁶ Amount available. A standby should expressly state the amount available under the standby. Standbys commonly add that the stated amount of a standby is the “maximum” (or “full” or “not

to exceed”) “aggregate” amount. These are unnecessary additions because ISP98 Rule 3.08 (Partial Drawings & Multiple Presentations; Amount of Drawings) permits presentations for less, but not more, than the amount available under a standby.

Under ISP98 Rule 3.08(e) (Partial Drawings & Multiple Presentations; Amount of Drawings), a drawing that exceeds the amount available under the standby is discrepant. To override that rule and require the issuer to pay the full amount available under the standby against a presentation that would comply but for the “credit overdrawn” discrepancy, the following clause may be added: “If a demand exceeds the amount available, but the presentation otherwise complies, Issuer undertakes to pay the amount available.”

⁷ Undertaking to the beneficiary only. It is unnecessary to state that an issuer’s payment obligation is made “to Beneficiary”. Except as otherwise stated in the standby or mandated by applicable law, a standby that names a beneficiary and does not identify any other person as having rights under the standby obligates the issuer solely to the named beneficiary. ISP98 Rule 2.04 (Nomination) provides for the possibility that a standby nominates another person to confirm the issuer’s undertaking or otherwise to give value against the named beneficiary’s complying demand. ISP98 Rule 6 (Transfer, Assignment, and Transfer by Operation of Law) provides for the possibility that an issuer is requested to acknowledge a person claiming to be a transferee beneficiary or an assignee of standby proceeds or a successor beneficiary. ISP98 Form 4 (Model Standby Providing for Transfer and Incorporating Annexed Form of Transfer Demand) focuses on transfer of drawing rights by beneficiary demand and other standby terms affecting a claimed transferee beneficiary, assignee of standby proceeds, or successor beneficiary.

⁸ Honour by payment. An issuer may undertake to honour a letter of credit other than by sight payment. Under ISP98 Rule 2.01 (Undertaking to Honour by Issuer and Any Confirmer to Beneficiary) an issuer may undertake to honour by non-recourse negotiation (purchase) of the documents presented or by acceptance of a time draft or incurrence of a deferred payment undertaking, followed by payment at maturity. Also, an issuer may undertake to honour by the delivery of an item of value, such as gold, in which case the issuer must be able to deliver the specified item. These other forms of honour are not covered in this form because they are much less common for standbys than honour by sight payment.

⁹ Presentation of standby. An issuer's obligation is not dependant on the beneficiary's holding or presenting the standby, unless the standby so provides. See ISP98 Rule 2.03 (Conditions to Issuance). This form, like most standbys, does not require presentation of the standby with a payment demand. Any such requirement exposes the beneficiary to the risk that a demand may be rightfully refused if the standby is lost or otherwise cannot be timely presented. It also exposes the issuer to disputes over the issuer's receipt, handling, or return of the standby. There are other ways to avoid payment against a forged demand, e.g., by providing in the standby that payment must be made to a specified beneficiary account.

Under ISP98 Rule 3.12 (Original Standby Lost, Stolen, Mutilated, or Destroyed), an issuer is entitled to enforce a requirement that the standby be presented with a demand. However, the rule also gives an issuer considerable discretion to excuse or remedy a beneficiary's failure to present the standby. If greater certainty is desired, then the standby could add the following or a variation: "Issuer undertakes to exercise its discretion under ISP98 Rule 3.12 to waive the requirement to present this Standby (or to replace it) against Beneficiary's representations and indemnities (including third party indemnities deemed appropriate by Issuer) in favor of Issuer and Applicant that are reasonably satisfactory to Issuer." The representations and indemnities should run to the applicant as well as the issuer. Although the issuer would determine what is reasonable at the time of taking any representations or indemnities, the applicant would bear the ultimate risk of payment against a forged demand.

The term "this Standby" in this ISP98 Form 1, like the term "original standby" in ISP98 Rule 3.12 (and Rule 6.03 (Conditions to Transfer)), refers to the originally signed/authenticated undertaking that evidences the issuer's obligation. Unless the issuer sends a signed/authenticated undertaking directly to the beneficiary, it may be desirable to clarify in the standby what must or may be presented as, or in lieu of, the issuer's undertaking in the form it left the issuer's control. If the standby was sent by an authenticated SWIFT message from an issuing bank to an advisor, the document to be presented would be the advisor's signed/authenticated message to the beneficiary annexing, or reproducing the text of, the SWIFT message sent by the issuer. There may be no unique undertaking for the beneficiary to present. If, for example, a standby was sent to a beneficiary in an electronic medium, its presentation to the issuer in an electronic medium or as a paper printout would serve merely to identify the standby to be transferred.

The terms "this standby" and "original standby" do not necessarily refer also to amendments. Some standbys state that all amendments must also be presented, and some also require a statement from the beneficiary as to whether it has consented (or not) to each amendment issued by the issuer. Neither should be necessary. An issuer should be able to determine from its own records whether amendments are binding on the issuer and the beneficiary, but it may nonetheless be desirable to address the status of amendments in any standby term requiring presentation of the standby.

¹⁰ Form of payment demand. This ISP98 Form 1 standby incorporates an annexed model form of payment demand to be completed and presented by the beneficiary. Annexing the desired form of payment demand (with any desired beneficiary statement) to a standby is unnecessary but promotes the efficient use of standbys. Requiring a "draft" (or bill of exchange) drawn at sight by the beneficiary on the issuer is neither necessary nor efficient under a standby that undertakes to pay at sight.

A standby that specifies wording in an annexed form of demand is subject to ISP98 Rule 4.09(b) (Identical Wording and Quotation Marks). That subsection requires or permits the beneficiary to complete blank lines or spaces and to correct apparent typographical errors and the like. It is intended to cover practically all circumstances in which a form of beneficiary demand and

statement is annexed to the standby.

If more flexibility is desired, Rule 4.09(a) should be consulted, but flexibility is better introduced by adding alternative wording to the annexed form of demand or otherwise indicating in the annexed form of demand how blank spaces may be completed. If no flexibility whatsoever is desired (e.g., because the demand or statement must be delivered to a third person in a precisely specified form), then Rule 4.09(c) should be consulted, with the understanding that it should be invoked rarely, that it requires use of the word "exact" or "identical" in the standby, and that its use may lead to unintended consequences for the issuer, applicant, or beneficiary.

The phrase “completed as indicated” assumes that the annexed form of demand adequately indicates how it is to be completed (e.g., by the inclusion of instructions and blank lines) and that it is to be dated and signed by the beneficiary. It does not add that the demand be “apparently” signed by the beneficiary or the beneficiary’s “purported” representative, because such additions are more likely to confuse than clarify the allocation of risks under ISP98 and applicable law of payment or non-payment of a forged demand.

ISP98 Rule 4.08 (Demand Document Implied) requires presentation of a documentary demand for payment. ISP98 itself does not require the named beneficiary to present any beneficiary statement.

Some standbys state that they are available by “one or more demands” or by “demand(s)”, rather than by “demand” in the singular. This is unnecessary for the reasons indicated in endnote 17.

¹¹ Manner of presentation. This standby form is based on the usual practice of sending original documents, sometimes including the original standby, in a package by courier to the issuer’s indicated place of presentation. Presentations by telefax and the like are prohibited unless expressly permitted in the standby or unless the beneficiary is a SWIFT participant or bank sending a demand using SWIFT or other similar authenticated means. See ISP98 Rule 3.06 (Complying Medium of Presentation). ISP98 Rule 1.09(c) (Electronic Presentations) includes defined terms that may be used in a standby that permits electronic presentation.

¹² Place of Presentation. ISP98 Rule 3.01 (Complying Presentation under a Standby) provides that a standby should indicate the place, the location within that place, and the person to whom presentation should be made. ISP98 Rule 3.04 (Where and to Whom Complying Presentation Made) provides default rules. The indicated place of presentation is significant in determining whether a complying demand is timely presented.

Standbys frequently include a requirement that the presentation be addressed to the attention of the Standby Letter of Credit Department or the like, which may prove critical on a last minute presentation. Some standbys also include in the address for presentation a specific floor or office, which, if it is not accessible to the beneficiary, may prove contentious in the case of a last

minute presentation. Beneficiaries and issuers both should avoid testing the limits of such requirements.

A standby may require presentation to the issuer to be made at a place that is not the place of issuance, e.g., to and at the address of a processing agent for the issuer (which could be an affiliate or another bank). A standby may also nominate another branch or bank to receive a presentation and act on that nomination. This standby form does not include any nomination or address issues which arise from a nomination. See ISP98 Rule 2.04 (Nomination).

¹³ Time of presentation. ISP98 Rule 3.05 (When Timely Presentation Made) provides that presentation must be made before expiry on the expiration date and that a presentation after business hours is treated as made the next business day. Rule 9.04 (Time of Day of Expiration) provides that expiry occurs at the close of business at the place of presentation.

¹⁴ Expiration. Standbys must contain an expiration date under ISP98 Rule 9.01 (Duration of Standby) and likely also under applicable commercial law and banking regulations. This standby form is based on the common practice of stating a specific calendar date. The stated date should be set sufficiently after the underlying obligation becomes due to allow for drawing after refusal of an initial drawing. If payment of the underlying obligation may be made outside of the standby, the stated date should be set to allow also for drawing after any possible rescission of an outside payment made by an insolvent payor.

Many issuers are subject to laws, regulations, or internal policies that limit their incurrence of obligations that are indefinite or long term. A common response is to set a one year expiration date and allow for automatic annual extensions unless the issuer sends or the beneficiary receives advance notice of non-extension. ISP98 Rule 2.06(a) (When an Amendment is Authorized and Binding) makes “automatic amendments”, including extensions of the expiration date, effective without further notification or consent, if the automatic amendment is expressly stated in a standby. ISP98 Form 2 (Model Standby Providing for Extension) focuses on annual automatic extension and other alternatives to a single fixed expiration date.

The expiration date stated in a standby is not necessarily the last day on which a complying presentation may be made under the standby. ISP98 Rules 3.13 (Expiration Date on a Non-Business Day) and 3.14 (Closure on a Business Day and Authorization of Another Reasonable Place for Presentation) extend the expiration date where it falls on a non-business day or on a day the bank is closed for any other reason.

¹⁵ Three days to examine and pay a presentation. ISP98 Rules 2.01(c) (Undertaking to Honour by Issuer and Any Confirmer to Beneficiary) and 5.01 (Timely Notice of Dishonour) provide for the time an issuer has to honour or dishonour and include a safe-harbor of three business days after presentation. The three day period begins on the business day following the business day of presentation. This optional standby text converts that 3-day safe harbor period in ISP98 into a timing requirement for payment of a complying presentation.

Many so-called financial standbys state a shorter period within which a complying presentation must be paid, and some also state that the shortened period also applies to the time allowed for the issuer to avoid preclusion by giving a notice of dishonour. For example, a standby payable against a simple demand to be presented by a bank beneficiary might state: “Payment of a complying presentation shall be made[, or in the case of a non-complying presentation a notice of dishonour shall be given,] on the first banking day following the banking day on which Issuer receives a presentation from Beneficiary[, if received before noon,][by SWIFT/telefax message at Issuer’s following SWIFT address/telefax number]...”

Some standbys permit a longer period for payment, e.g., 30 days after presentation or 10 days after a presentation is determined to comply. Lengthening the time for honour would not, without more, lengthen the timing requirements of ISP98 Rule 5.01 (Timely Notice of Dishonour) for giving a notice of dishonour or for precluding defenses under ISP98 Rule 5.03 (Failure to Give Timely Notice of Dishonour).

¹⁶ Place and method of payment. If a standby, including an annexed form of demand, does not state the method of payment, then an issuer may voluntarily follow the presenter’s request. ISP98 Rule 5.08 (Cover Instructions/Transmittal Letter) permits an issuer to deal with the presenter and to follow instructions accompanying a presentation. Similarly, ISP98 Rule 6.10 (Reimbursement for Payment Based on an Assignment) protects an issuer’s reimbursement rights in cases of payment to an acknowledged assignee of standby proceeds. ISP98 Rule 2.01(e) (Undertaking to Honour by Issuer and Any Confirmer to Beneficiary) provides that honour by payment is to be made in immediately available funds. This optional standby text facilitates payment by wire transfer in response to a request duly made by the beneficiary.

Unless the standby otherwise states, an issuer is not required to pay anyone other than a beneficiary, a nominated person, or an acknowledged assignee of standby proceeds and is not required to pay anywhere other than at the place of presentation. See ISP98 Rule 6 (Transfer, Assignment, and Transfer by Operation of Law). Payment may be made at the place of presentation by sending a bank check to the order of the beneficiary or by initiating a wire transfer.

If payment by check is the sole desired method of honour, the following may be substituted: “Payment shall be made by Issuer’s check payable to Beneficiary sent to Beneficiary’s above-stated address by registered mail or [*inter*]nationally recognized courier or other means of receipted delivery to Beneficiary.”

If payment by wire transfer is the sole desired method of honour, the following standby text may be substituted: “Payment shall be made by wire transfer to an account of Beneficiary as follows: **[name, address, and routing number of Beneficiary’s bank, and name and number of Beneficiary’s account]** or to such other bank account of Beneficiary as Beneficiary may duly request of Issuer”. An issuer’s response to a beneficiary request may be affected by regulatory requirements limiting payment to a permissible account at a permissible financial institution

located in a permissible country. The annexed form of demand and statement incorporated into this ISP98 Form 1 standby contains model wording for a beneficiary's request for payment by wire transfer. Including a detailed method of payment in a standby may deter forged beneficiary demands, as well as avoid delays resulting from the issuer's receipt of an inadequate request as to the method of payment.

No matter what a standby, demand form, or separate request for routing payment may state, applicable law, e.g., a court or government agency order, may block payment. Applicable law may also allocate the risks of loss in case of payment to the wrong person.

¹⁷ More than one drawing. It is unnecessary to state that a beneficiary may make multiple drawings or drawings for less than the full amount available. A standby that undertakes to honour "a demand" (in the singular) does not affect the beneficiary's right to present more than one demand under standard practice applicable to standby (and commercial) letters of credit. ISP98 Rule 3.08 (Partial Drawings & Multiple Presentations; Amount of Drawings) permits both partial and multiple drawings unless prohibited in the standby. If a standby is to be honoured once only, then the standby should state that affirmatively or, as indicated in ISP98 Rule 3.08(d), state "multiple drawings prohibited".

¹⁸ Reduction by honour. It is unnecessary to state that the amount available under a standby is reduced by the amount of any drawing that is honoured. This is because honour discharges (rather than amends or cancels) the issuer's obligations and because ISP98 Rule 1.10(c)(ii) (Redundant or Otherwise Undesirable Terms) presumes that reinstatement is not intended. ISP98 Form 3 (Model Standby Providing for Reduction and Incorporating Annexed Form of Reduction Demand) focuses on reduction, including reduction to zero, by beneficiary demand and by other optional terms permitting or requiring reductions in the amount available under a standby.

¹⁹ Incorporation of ISP98; law, court, arbitration, and sanctions. Incorporation of ISP98 into an undertaking that is payable against the presentation of documents should qualify the undertaking as independent under applicable law. ISP98 invokes letter of credit law by emphasizing the letter of credit aspects of a standby and its independence in ISP98 Rules 1.06(c) (Nature of Standbys) and 1.07 (Independence of the Issuer-Beneficiary Relationship). See *Team Telecom Int'l v. Hutchison 3G UK Ltd*, 2003 EWHC 762 (Q.B. Div'l Ct.) [England], abstracted at *2004 Annual Survey of Letter of Credit Law & Practice* 335 (bond subject to ISP98 is an independent undertaking).

It is unnecessary for a standby to recite that it is independent or that it is enforceable without regard to the validity of any claim of performance or non-performance in the underlying transaction. It is unnecessary for a standby to add a recital (including an "integration" or "merger" clause) that would deny or limit the effect of any document or other matter mentioned in the standby or of any negotiations leading up to or following standby issuance. Such clauses and recitals risk limiting the various ISP98 rules that provide for the standby's independence.

Where a choice-of-law clause is included in a standby, most courts will give effect to it. Otherwise, a court will likely apply its own conflict-of-laws' rules. Conflict-of-laws' rules affect the legal standards for compliance of any presentation, for the scope of any fraud/abuse exception, for the availability of any excuse based on government sanctions, etc. Under many legal systems, the conflict-of-laws' rules provide that the law at the place of issuance of the standby (or confirmation) should govern the issuer's (or confirmer's) obligations. See, e.g., the UN Convention on Independent Guarantees and Standby Letters of Credit, Articles 21 (Choice of applicable law) and 22 (Determination of applicable law). However, courts may hear a wrongful dishonour claim filed other than where the issuer (or confirmer) is located, may apply different conflict-of-laws' rules, and may determine, e.g., that the law of the place where the beneficiary is located should govern.

As indicated, most courts will respect a choice-of-law clause and a choice-of-exclusive-forum clause in a standby (or confirmation of a standby). Including a choice of law clause or an exclusive forum clause or both fosters certainty. E.g.: "Issuer's obligations under this Standby are governed by the laws of [State]. The courts located in [State] shall have exclusive jurisdiction over any action to enforce Issuer's obligations under this Standby."

The Preface to ISP98 includes a suggested arbitration clause: "This Standby [*undertaking*] is issued subject to ISP98, and all disputes arising out of it or related to it are subject to arbitration under ICLOCA Rules (1996)." (The ICLOCA Rules, which are based on the UNCITRAL Rules of Arbitration, are available at www.icloca.org. The International Center for Letter of Credit Arbitration is located in metropolitan Washington, D.C., at 20405 Ryecroft Court, Montgomery Village, MD 20886 USA.)

Particularly if the standby does not choose applicable law, the issuer may wish to consider including a "sanctions" clause covering sovereign compulsion excusing the issuer, e.g.: "Issuer disclaims liability for delay, non-return of documents, non-payment, or other action or inaction compelled by a judicial order or government regulation applicable to Issuer."

A standby consists of obligations of the issuer limited by its terms and conditions. Accordingly, a choice of law or forum or both in a standby applies to those issuer obligations and not to the obligations of any confirmer or other person. There is no problem under a straight standby that states that "this standby is governed" by the chosen law or that any litigation under it is limited to the chosen court, but this same wording might prove confusing when included in a standby that nominates another person to advise, confirm, or otherwise act on the standby.

²⁰ Communications. This optional clause or a variation of it is particularly apt for a standby that is long term or that provides for communications from or to the beneficiary (apart from payment demands). If a beneficiary requires greater certainty that its request to amend its address will be given effect, then the standby should expressly provide for automatic amendment against presentation of a complying beneficiary demand for an address change. Standby language with a

demand form for this purpose may be adapted from ISP98 Forms 3 and 4 providing for reduction and transfer on demand by the beneficiary.

²¹ Demand Date. ISP98 Rule 4.16(b)(ii) (Demand for Payment) provides that a demand must contain an issuance date, and ISP98 Rule 4.06 (Date of Documents) provides that its issuance date may not be later than the date of its presentation. To override that rule, e.g., to permit post-dated documents, the following clause may be added to the Standby text: “The issuance date or any other date on any document, including the required demand, may be a date on, before, or after the date the document is presented under this Standby.”

²² Addressee. The information in the text of the standby indicating where, how, and to whom a presentation is to be made under the standby should be repeated in the demand form. See ISP98 Rules 3.01 (Complying Presentation under a Standby), 3.04 (Where and to Whom Complying Presentation Made), and 3.06 (Complying Medium of Presentation). Particular attention should be given to the possibility that a standby may require presentation at an address that differs from the issuer’s letterhead address.

²³ Standby identification. A demand form should identify the standby by including the information in the standby text that identifies it, particularly the issuer’s reference number. See ISP98 Rules 3.01 (Complying Presentation under a Standby) and 3.03 (Identification of Standby).

²⁴ Demand. This model form of annexed demand should satisfy the requirements of ISP98 Rules 4.16 (Demand for Payment) and 4.17 (Statement of Default or other Drawing Event), so that, when the beneficiary completes it as indicated, it will include a demand for payment of a stated amount, be dated and signed, and contain any required beneficiary statements.

²⁵ Beneficiary statements. Standbys commonly require presentation of beneficiary statements and commonly combine them with the required form of demand for payment. Words other than “states”, such as “certifies”, “represents”, “warrants”, “promises”, or a combination of those words, are also used and may be preferable in the context of the underlying transaction. Any such word of assurance, when required to be included in a document presented under a standby, may give rise to a claim against the beneficiary who obtains payment under the standby. The nature and sufficiency of such claim may depend on the precise wording included in the demand, the identity of the claimant, and the status of any related claims based on the obligations intended to be supported by the standby.

The applicant or issuer or both may prefer a combination of specific representations and undertakings from the beneficiary. The beneficiary may prefer no such wording or only conclusory wording qualified by the beneficiary’s reference to “good faith” belief or the like. The applicant or issuer or both may prefer that the beneficiary make its statements expressly to the applicant or issuer or both.

ISP98 Rule 4.12 (Formality of Statements in Documents) provides guidance on standby requirements for statements that are to be “sworn to”, “witnessed”, “legalized”, or the like.

It should be unnecessary to include in a demand form that the amount demanded is available under the standby, because that amount should be determinable without dependence on any such statement.

²⁶ “Applicant” as underlying obligor. This demand form uses “Applicant”, which is a defined term in the text of the standby, and assumes that the applicant and beneficiary are parties to an underlying agreement that establishes the obligations to be supported by the standby. See endnotes 1 and 30.

²⁷ Obligated/in default. This statement indicates that the applicant is “obligated to pay” the amount demanded, not that there is a “default”. A default statement is inapt where the amount demanded is payable on the date demanded without regard to the occurrence or continuance of a default or where “default” is not adequately defined in the documentation for the underlying obligations or where “default” may require that an action be taken that may be prohibited under laws triggered by the insolvency of the applicant or other party.

²⁸ Unpaid. The term “unpaid” in the optional “due and unpaid” recital may raise a question where the applicant has made a direct payment to the beneficiary but the funds paid are subject to recapture by an insolvency representative of the applicant. It should be possible for a beneficiary in that context to state, without running afoul of a fraud or abuse exception under applicable letter of credit law, that the underlying obligation remains unpaid where a direct payment has been received subject to a credible claim that the direct payment is voidable and must be returned.

²⁹ Underlying obligation. Although some standbys are payable on simple demand, the applicant, beneficiary, or issuer may insist that a demand under a standby identify the underlying obligation, obligor, and obligee, particularly where there may be no single underlying agreement between the applicant and beneficiary that establishes the underlying obligations and provides that those obligations be supported by a standby.

³⁰ Applicant-beneficiary relationship. This model form of annexed demand assumes that the standby supports one or more obligations of the applicant to the beneficiary. Under commercial and regulatory laws, the issuer, any nominated bank, the applicant and beneficiary, and, where different, the underlying obligor and obligee may need to identify the underlying obligations intended to be supported by the standby and to be satisfied or secured by the proceeds of a drawing under the standby. Accordingly, this form of demand should be redrafted if, e.g., the applicant is a surety for the underlying obligor or the beneficiary is a creditor of the underlying obligee. Additionally, the underlying documentation should be drafted to provide for the pre- and post-honour obligations of the applicant and beneficiary (and, where different, of the underlying obligor and obligee) to each other, particularly if the named applicant has or intends

to claim the rights of an ordinary guarantor or surety. In this regard, it may be desirable for the beneficiary's statement to refer expressly to the underlying obligations, as they may be amended by the obligor and obligee, without (or with) the further consent of the applicant.

³¹ Use of proceeds. This optional beneficiary statement is unnecessary if the underlying agreement adequately provides for the use of all proceeds from a drawing under the standby and if the applicant reimburses the issuer. Otherwise, some mention in the form of demand of the relationship of any standby proceeds to the underlying obligation is helpful in answering post-honour questions about the disposition of any excess standby proceeds. Absent such a provision, the "independence" of the standby obligation may hinder appropriate post-honour accounting for the use of funds received under a standby.

³² Proceeds as cash collateral. Where the proceeds cannot or might not be used to "satisfy" the applicant's obligations, the demand form should indicate that the proceeds will be used to "secure" them. This consideration is important under standbys that are intended to be used, at least in some circumstances, to fund the applicant's underlying obligation to provide cash collateral. The most common circumstance involves standbys that may expire before the underlying obligations become fully due and payable.

³³ Accounting to issuer for unused proceeds. The issuer may want to take a security interest in the applicant's rights to unused proceeds and/or require the beneficiary to state, e.g.,: "...and that Beneficiary will account to Issuer or Applicant, as their interests may appear, for any proceeds that are not so used."

³⁴ Request for wire transfer to beneficiary's account. This term in the demand form is unnecessary if the text of the standby includes satisfactory wire transfer information for payment to the beneficiary. See endnote 16.

Issuers are not required to pay wherever, however, or whomever the beneficiary requests, unless the standby so states. Under ISP98 Rule 5.08 (Cover Instructions/Transmittal Letter), issuers are permitted to follow a request to pay by wire transfer to the beneficiary's account, subject to timely receipt of customary account information and deduction of customary wire transfer charges and due consideration of any regulations or bank policies affecting wire transfer of funds to the requested country, bank, and account.

A request to pay to another's account is a request for acknowledgement of an assignment of proceeds, which is subject to the special rules in ISP98 Rules 6.06-6.10 (Acknowledgement of Assignment of Proceeds), as well as laws protecting issuers and applicants and other laws regulating money laundering, etc.

To deter forged demands, and to address anti-money-laundering concerns, this model form of request for payment by wire transfer states that payment is to be made to the named beneficiary at a specified beneficiary account at a specified bank location.

³⁵ Signer authentication. This demand form requires the signer to indicate in the signature line that the demand and statement are made by the named beneficiary located at the address stated in the standby. Accordingly, the beneficiary's name and address should be stated in this demand form when the standby incorporating it is issued.

³⁶ Original signature. What is an original signature depends on the mode of communication. See ISP98 Rules 1.09(a) (Defined Terms) (“Signature”) and 3.06(d) (Complying Medium of Presentation).

[IIBLP as of 10 May 2012]

ISP98 Form 2
Model Standby Providing for Extension and Incorporating
Annexed Form of Payment Demand with Alternative Non-Extension
Statement*

[name and address of beneficiary]

[date of issuance]

Issuance. At the request and for the account of **[name and address of applicant]** (“Applicant”), we **[name and address of issuer at place of issuance]** (“Issuer”) issue this irrevocable standby letter of credit number **[reference number]** (“Standby”) in favour of **[name and address of beneficiary]** (“Beneficiary”) in the maximum aggregate amount of **[currency/amount]**.

Undertaking. Issuer undertakes to Beneficiary to pay Beneficiary’s demand for payment in the currency and for an amount available under this Standby and in the form of the Annexed Payment Demand completed as indicated and presented to Issuer at the following place for presentation: **[address of place for presentation]**, on or before the expiration date.

Expiration. The expiration date of this Standby is **[date]**.¹

Extension. The expiration date of this Standby shall be automatically² extended³ for successive one year periods, unless Issuer notifies Beneficiary by registered mail or other receipted means of delivery sent⁴ to Beneficiary’s above-stated address **[30]**⁵ or more days before the then current expiration date that Issuer elects not to extend the expiration date.⁶ The expiration date is not subject to automatic extension beyond **[date]**, and any pending automatic one-year extension shall be ineffective beyond that date.⁷ *[The expiration date may also be extended in accordance with the terms of an amendment issued by Issuer to which Beneficiary consents and in accordance with ISP98 rules on closure of the place for presentation on the expiration date.]*⁸

[Payment. Payment against a complying presentation shall be made within 3 business days after presentation at the place for presentation or by wire transfer to a duly requested account of Beneficiary. An advice of such payment shall be sent to Beneficiary’s above-stated address.]

[Drawing. Partial and multiple drawings are permitted.]

[Reduction. Any payment made under this Standby shall reduce the amount available under it.]

ISP98. This Standby is issued subject to the International Standby Practices 1998 (ISP98) (International Chamber of Commerce Publication No. 590).

*[Communications. Communications other than demands may be made to Issuer by telephone, telefax, or SWIFT message, to the following: **[numbers/addresses]**. Beneficiary requests for amendment of this Standby, including amendment to reflect a change in Beneficiary's address, should be made to Applicant, who may then request Issuer to issue the desired amendment.]*⁹

[Issuer's name]

[signature]
Authorized Signature

Annexed Payment Demand

[INSERT DATE]

[name and address of Issuer or other addressee at place of presentation as stated in standby]

Re: Standby Letter of Credit No. **[reference number]**, dated **[date]**, issued by **[Issuer's name]** ("Standby")

The undersigned Beneficiary demands payment of **[INSERT CURRENCY/AMOUNT]** under the Standby.

Beneficiary states that

[INSERT ONE OF THE FOLLOWING ALTERNATIVE STATEMENTS]¹⁰:

Applicant is obligated to pay to Beneficiary the amount demanded[, *which amount is due and unpaid*] under[*or in connection with*] the agreement between Beneficiary and Applicant titled **[agreement title]** and dated **[date]**.¹¹ [*Beneficiary further states that the proceeds from this demand will be used to satisfy the above-identified obligations and that Beneficiary will account to Applicant for any proceeds that are not so used.*]

or¹²

the Standby is set to expire fewer than **[30]** days from the date hereof, because Issuer has given a notice of non-extension of the Standby,¹³ and¹⁴ the amount demanded is required as cash collateral to secure the unmatured or contingent obligations of Applicant under[*or in connection with*] the agreement between Beneficiary and Applicant titled **[agreement title]** and dated **[date]**. Beneficiary further states that the proceeds from this demand will be used to secure¹⁵ the above-identified obligations and then to satisfy them as they become absolute and due and that Beneficiary will account to Applicant¹⁶ for any proceeds that are not so used.]

Beneficiary requests that payment be made by wire transfer to an account of Beneficiary as follows: [INSERT NAME, ADDRESS, AND ROUTING NUMBER OF BENEFICIARY'S BANK, AND NAME AND NUMBER OF BENEFICIARY'S ACCOUNT].

[Beneficiary's name and address]

By its authorized officer:

[INSERT ORIGINAL SIGNATURE]

[INSERT TYPED/PRINTED NAME AND TITLE]

[Before the standby is issued, all text in **[bold]** should be completed, and optional text in *[italics]* should be included or deleted (or redrafted). Text in the annexed demand form preceded by "INSERT" (or other ALL CAPITALS guidance) and in [ALL CAPITALS UNDERLINED] is to be completed as indicated when the beneficiary prepares and presents a demand.]

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This ISP98 Form 2 model standby repeats the text of ISP98 Form 1. It adds a provision for automatic extension and incorporates a model form of payment demand that adds an alternative beneficiary statement demanding payment because of the issuer's action resulting in non-extension of the expiration date of the standby. Like ISP98 Form 1, this Form 2 is intended to be self-contained and, absent special circumstances, useable without extended reference to the text of ISP98.

The endnotes to this standby include alternative and other optional terms of particular relevance to standbys providing for automatic amendment of an expiration date, as well as references to relevant ISP98 rules. See the ISP98 Form 1 endnotes for explanation of wording that is common to ISP98 Forms 1 and 2 and for alternative and optional wording for general terms common to both forms. (There are more than 30 endnotes to Form 1 that are not repeated in this Form 2.)

This form is published for educational purposes and not as legal or professional advice. Potential users should consult with their own advisers in the drafting or use of a standby letter of credit. ISP98 and letter of credit educational and training materials, including *The Official Commentary on the International Standby Practices* containing official interpretations of ISP98, are available from IIBLP at www.iiblp.org.

¹ Expiration. ISP98 Rule 9.01 (Duration of Standby) provides that "A standbys must: (a) contain an expiration date or (b) permit the issuer to terminate the standby upon reasonable prior notice

or payment”. Commercial law and banking regulations are likely to impose similar requirements. As reflected in ISP98 Form 1, a standby may set an expiration date and leave the possibility of shortening or extending that date to future amendment(s) issued by the issuer to which the beneficiary consents, as provided in ISP98 Rule 2.06(b)-(d) (When an Amendment is Authorised and Binding). Also, a beneficiary may seek the issuer’s consent to an amendment of the expiration date by requesting the amendment or by making an extend or pay demand.

² Automatic amendment. Many issuers are subject to laws, regulations, or internal policies that limit their incurrence of obligations that are indefinite or long term. A common response to an applicant’s request for a medium or long term standby is to set a one year expiration date and then state in the standby that it automatically extends for successive one-year periods unless the issuer sends, or the beneficiary receives, advance notice of non-extension, as provided in ISP98 Rule 2.06(a) (When an Amendment is Authorised and Binding). This ISP98 Form 2 reflects that common response.

Alternative responses include the following model clause for automatic early termination of the standby based on the issuer’s giving advance notice to the beneficiary, e.g.: “The expiration date of this Standby is **[date]**. The expiration date shall be automatically amended to an earlier date if Issuer notifies Beneficiary of the proposed earlier expiration date by registered mail or other receipted means of delivery sent to Beneficiary’s above-stated address **[30]** or more days before the proposed earlier expiration date stated in the notice.”

Another alternative is based on early payment, e.g., “The expiration date of this Standby is **[date]**. The expiration date shall be automatically amended to an earlier date if Issuer notifies Beneficiary by registered mail or other receipted means of delivery sent to Beneficiary’s above-stated address that Issuer elects to terminate this Standby with Issuer’s payment to Beneficiary of the full amount available under this Standby and payment is made to Beneficiary, whereupon this Standby shall expire.” See ISP98 Rule 9.01(b) (Duration of Standby).

ISP98 Rule 2.06(a) (When an Amendment is Authorized and Binding) makes “automatic amendments” effective without further notification or consent if the automatic amendment is expressly stated in a standby. Accordingly, it is desirable to include the word “automatic” in any standby clause intended to make an amendment effective based on the terms of the standby and not by obtaining the beneficiary’s consent. It is unnecessary to recite that an automatic extension is “without amendment” or that an automatic extension clause is a “condition”.

³ Automatic extension. The words “extend” and “non-extension” are used, rather than “renew” and “non-renewal”, to avoid any doubt that the intent is to amend, rather than replace, the standby.

It is not desirable to include the word “evergreen” in an automatic extension clause. The word “evergreen” is popularly used to refer to automatic extension clauses, such as the one included in this ISP98 Form 2. However, this word cannot substitute for, or usefully supplement, an automatic extension clause. See ISP98 Rule 1.10(c)(ii) (Redundant or Otherwise Undesirable Terms).

⁴ Send/receive. Automatic extension clauses vary in the extent to which they spell out where and how a notice of non-extension must or may be sent to, or be received by, the beneficiary in order to establish an expiration date that is not subject to further automatic extension. For alternative wording, consider: "...is sent to Beneficiary's above-stated address by registered mail or by [inter]nationally recognized courier or is received by Beneficiary at Beneficiary's above-stated or current address...." Under ISP98 Rule 4.11(c)(ii) (Non-Documentary Terms or Conditions), standby requirements based on when, where, and how issuer notices are sent or received by the issuer or beneficiary are effective. However, there may be practical difficulties in proving when an issuer's non-extension notice was sent to or received by the beneficiary. Strict compliance concepts applicable to beneficiary presentations under a standby are sometimes applied to issuer notices to a beneficiary. Some standbys address these concerns by providing alternative beneficiary addresses or by providing that timely actual receipt of notice by the beneficiary is sufficient.

If notice by e-mail, telefax, or the like is also to be permitted, then the automatic extension clause should state the alternative, e.g. "Such notice may also be given by [*e-mail*] [*telefax*] [*authenticated SWIFT message*] sent to the following Beneficiary [*address*][*number*]..."

⁵ 30 days/one year. A 30-day period for giving or receiving a notice of non-extension is common, but shorter (e.g., 15 days) and longer (e.g., 60 days) periods are also common. Although unnecessary, "calendar day" may be substituted for "day" to emphasize the distinction between "business day" and "banking day" which are defined in ISP98 Rule 1.09(a) (Definitions) and "day" which is not defined. The length of the period is affected by the length of time expected for (i) the issuer to re-approve the applicant's credit, (ii) the beneficiary to draw as permitted by the standby and the underlying transaction, and (iii) the applicant to replace the standby.

A one-year period for setting the initial expiration date and for the duration of automatic extension periods is very common. It is based on the common practice of bank issuers that annually re-evaluate applicant credit-worthiness.

⁶ Retraction of non-extension notice. Standby operations personnel may not receive credit approval for extension before the date required to initiate sending a timely non-extension notice and, as a result, may issue a notice of non-extension and later receive credit approval for extension. The following optional model clause would permit a full right of retraction: "At any time before the next expiration date Issuer may retract its notice of non-extension and thereby automatically extend the expiration date as if its notice of non-extension had not been sent or received and may treat any pending (unhonoured) demand for payment based on non-extension as automatically retracted by Beneficiary."

⁷ Final expiration date. An end date for automatic extensions, even if it is set many years out, is desirable for record keeping purposes, particularly to avoid having to retain indefinitely proof that a standby was terminated by expiration following an effective notification of non-extension (or was honoured or otherwise reduced to zero).

⁸ Extension under ISP98 Rules 3.13 (Expiration Date on a Non-Business Day) and 3.14 (Closure on Expiry Date). The initial or automatically extended expiration date stated in a standby may not be the last day on which a presentation may be made. ISP98 provides for extensions for a presentation that is received during a weekend or holiday or that is attempted during a business day at a place of presentation that is closed for any reason. Separately, ISP98 Rule 9.03(b) (Calculation of Time) provides that an extension period starts on the calendar day following a stated expiration date that falls on a day when the issuer is closed. (This rule is intended to keep the same calendar date as the expiration date under an annually extended standby.)

⁹ Communications. See ISP98 Form 1 endnote 20. This optional clause is particularly apt for a standby that is long term or otherwise more complex than most standbys, such that communication from or to the beneficiary (apart from payment demands) may be expected. An issuer may wish to expand this clause or the clause on giving notice of non-extension to the beneficiary, to assure that effect will be given to a notice duly sent but not (provably) received by the beneficiary, “A notice shown to have been delivered to the Beneficiary’s above address by mail or courier certificate, invoice, or the like shall be deemed received by Beneficiary and effective not later than 5 Business Days after the date of delivery shown thereon.”

¹⁰ Alternative Statements. Depending on the terms of the underlying obligation, an issuer’s non-extension notice may entitle the beneficiary to a payment either that satisfies the underlying obligation or serves as cash collateral for an underlying obligation or that is not yet due. ISP98 Form 2 contemplates that the beneficiary will present separate demands and statements if the beneficiary is entitled to make partial demands of both types.

¹¹ First alternative statement (drawing to satisfy underlying obligation). The first alternative beneficiary statement is substantially the same as the beneficiary statement in ISP98 Form 1. This first alternative statement might be apt for a drawing made after sending/receipt of a non-extension notice, particularly if the underlying agreement entitled the beneficiary to accelerate an underlying debt obligation upon the imminent expiration of standby support. Any such underlying agreement could limit the beneficiary’s right to accelerate to situations in which there was no retraction of the non-extension notice sent/received and no substitute standby was issued.

¹² Second alternative statement (drawing to cash collateralize underlying obligation). The second alternative statement would be apt for a drawing made after sending/receipt of a non-extension notice, particularly if the first alternative statement requires a statement that the amount demanded is due and if the underlying agreement does not treat imminent expiration of the standby as accelerating the underlying payment obligations.

¹³ Extend or pay demands. ISP98 Rule 3.09 (Extend or Pay) provides that an “extend or pay” demand must be examined for compliance with the standby’s terms and conditions for honouring payment demands. Imminent expiration would not excuse compliance with a requirement that a payment demand state that the underlying obligation is in default or the like. It would not excuse compliance with a requirement that a payment demand state that the issuer has sent a notice of

non-extension. Accordingly, if the standby is to facilitate extend or pay demands, the standby text and the required form of payment demand in this model ISP98 Form 2 should be re-worded.

¹⁴ No retraction or standby substitution. The required beneficiary statement might here add a statement that no retraction of the non-extension notice has been timely sent/received and that no permitted substitute standby (or other equivalent security) has been timely sent/received. In such case, the 30 day period stated in the automatic extension clause in this ISP98 Form 2 should be reduced, e.g., to 15 days, to allow time for retraction or permitted standby substitution. It is possible to include all of the features of a permitted standby substitution (or for the tender of permitted equivalent security), but ordinarily what is permissible should be spelled out in the underlying agreement and cross referenced in the beneficiary's statement.

¹⁵ Proceeds as cash collateral. Where the proceeds cannot or might not be used to "satisfy" the Applicant's obligations, it may be appropriate to state that the proceeds are being used to "secure" them. The terms permitting a drawing and then holding of cash collateral should be stated in an underlying agreement between the applicant and beneficiary, particularly if the cash collateral is to be held in an interest bearing or other special account. Such terms may be stated also in the required form of beneficiary statement regarding the basis for the drawing and subsequent use of standby proceeds as security.

¹⁶ Accounting for proceeds. As noted in ISP98 Form 1, the issuer may wish that the demand form state that the beneficiary must account to the issuer for any unused proceeds resulting from a drawing based on the issuer's advance notice of non-extension and to take further steps to protect its interest in such unused proceeds.

ISP98 Form 3
Model Standby Providing for Reduction and
Incorporating Annexed Form of Reduction Demand*

[name and address of beneficiary]

[date of issuance]

Issuance. At the request and for the account of **[name and address of applicant]** (“Applicant”), we **[name and address of issuer at place of issuance]** (“Issuer”) issue this irrevocable standby letter of credit number **[reference number]** (“Standby”) in favour of **[name and address of beneficiary]** (“Beneficiary”) in the maximum aggregate amount of **[currency/amount]**.

Undertaking. Issuer undertakes to Beneficiary to pay Beneficiary’s demand for payment in the currency and for an amount available under this Standby and in the form of the Annexed Payment Demand completed as indicated and presented to Issuer at the following place for presentation: **[address of place for presentation]**, on or before the expiration date.

Expiration. The expiration date of this Standby is **[date]**.

[Payment. Payment against a complying presentation shall be made within 3 business days after presentation at the place for presentation or by wire transfer to a duly requested account of Beneficiary. An advice of such payment shall be sent to Beneficiary’s above-stated address.]

Reduction. Any payment made under this Standby shall reduce the amount available under it. Also, the amount available under this Standby shall be automatically reduced¹ in accordance with the terms of Beneficiary’s reduction demand(s)² in the form of the Annexed Reduction Demand completed as indicated and presented to Issuer at the above-stated place for presentation.³

[Partial and multiple drawings are permitted.]

ISP98. This Standby is issued subject to the International Standby Practices 1998 (ISP98) (International Chamber of Commerce Publication No. 590).

*[Communications. Communications other than demands may be made to Issuer by telephone, telefax, or SWIFT message, to the following: **[numbers/addresses]**. Beneficiary requests for amendment of this Standby, including amendment to reflect a change in Beneficiary’s address, should be made to Applicant, who may then request Issuer to issue the desired amendment.]*

[Issuer’s name]

[signature]

Authorized Signature

Annexed Payment Demand

[INSERT DATE]

[name and address of Issuer or other addressee at place of presentation as stated in standby]

Re: Standby Letter of Credit No. **[reference number]**, dated **[date]**, issued by **[Issuer's name]** ("Standby")

The undersigned Beneficiary demands payment of [INSERT CURRENCY/AMOUNT] under the Standby.

Beneficiary states that Applicant is obligated to pay to Beneficiary the amount demanded[, *which amount is due and unpaid*] under[*or in connection with*] the agreement between Beneficiary and Applicant titled **[agreement title]** and dated **[date]**.

[Beneficiary further states that the proceeds from this demand will be used to satisfy the above-identified obligations and that Beneficiary will account to Applicant for any proceeds that are not so used.]

Beneficiary requests that payment be made by wire transfer to an account of Beneficiary as follows: [INSERT NAME, ADDRESS, AND ROUTING NUMBER OF BENEFICIARY'S BANK, AND NAME AND NUMBER OF BENEFICIARY'S ACCOUNT].

[Beneficiary's name and address]

By its authorized officer:

[INSERT ORIGINAL SIGNATURE]

[INSERT TYPED/PRINTED NAME AND TITLE]

Annexed Reduction Demand

[INSERT DATE]

[name and address of Issuer or other addressee at place of presentation as stated in standby]

Re: Standby Letter of Credit No. **[reference number]**, dated **[date]**, issued by **[Issuer's name]** ("Standby")

The undersigned Beneficiary demands⁴ reduction of the amount available under the Standby to the maximum aggregate of [INSERT CURRENCY/AMOUNT]).

Beneficiary states that this Demand for Reduction is based on Beneficiary's determination regarding the maximum amount of standby support required to be provided to Beneficiary by Applicant under[*or in connection with*] the agreement between Beneficiary and Applicant titled [**agreement title**] and dated [**date**].⁵

Beneficiary's demand and statements are made as of the date hereof.

[Beneficiary's name and address]

By its authorized officer:

[INSERT ORIGINAL SIGNATURE]

[INSERT TYPED/PRINTED NAME AND TITLE]⁶

[Before the standby is issued, all text in **[bold]** should be completed, and optional text in *[italics]* should be included or deleted (or redrafted). Text in the annexed demand forms preceded by "INSERT" (or other ALL CAPITALS guidance) and in [ALL CAPITALS UNDERLINED] is to be completed as indicated when the beneficiary prepares and presents a demand.]

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This ISP98 Form 3 model standby repeats the text of ISP98 Form 1. It adds standby text and incorporates a model reduction demand form that obligates the issuer to reduce the amount available under the standby upon receipt of a reduction demand completed and presented by the beneficiary. Like ISP98 Form 1, this Form 3 is intended to be self-contained and, absent special circumstances, useable without extended reference to the text of ISP98.

The endnotes to this standby include alternative and other optional terms of particular relevance to standbys providing for on demand or automatic reduction (including reduction to zero), as well as references to relevant ISP98 rules. See the ISP98 Form 1 endnotes for explanation of wording that is common to ISP98 Forms 1 and 3 and for alternative and optional wording for general terms common to both forms. (There are more than 30 endnotes to Form 1 that are not repeated in this Form 3.)

This form is published for educational purposes and not as legal or professional advice. Potential users should consult with their own advisers in the drafting or use of a standby letter of credit. ISP98 and letter of credit educational and training materials, including *The Official Commentary on the International Standby Practices* containing official interpretations of ISP98, are available from IIBLP at www.iiblp.org.

¹ Reduction by beneficiary demand. If it is expected that the amount available may be reduced (including a possible reduction to zero) before expiry, other than by honour of payment demands, then it may be desirable to simplify the process of reducing the standby by adding a term permitting the beneficiary to demand reduction(s) by presentation of a specified document. Otherwise, a request for reduction (including a reduction to zero) must be processed as an amendment (or cancellation) requiring the consent of the issuer as well as the beneficiary and, as a practical matter, the applicant, resulting in the application of ISP98 Rule 2 (Obligations) and Rule 7 (Cancellation). Reduction by beneficiary demand is “automatic” in that the standby obligates the issuer to give immediate effect to the beneficiary’s presentation of a complying demand for reduction. For an automatic cancellation clause, see ISP98 Form 7 (automatically cancelling standby if not timely confirmed).

² Multiple demands for reduction. Because there is no ISP98 rule addressing multiple demands for reduction, their availability is affirmatively indicated by the addition of “(s)”.

³ Automatic reduction. If the timing and amount of any reductions are determinable at the time of standby issuance, then the standby may include an automatic reduction term, e.g.: “The amount available under this standby shall be reduced automatically to **[currency/amount]** on **[date]** at the close of business at the above-stated place of presentation. An amount that is available on the banking day on which a complying demand for payment is presented shall not be affected by any later automatic reduction” Such automatic reductions should be described as reductions to a new aggregate maximum amount available and not as reductions of a stated amount. Otherwise, additional wording might be required to indicate whether or not an automatic reduction is affected by any prior or pending demands for partial payment.

As indicated in ISP98 Form 1, endnote 17, it is unnecessary to state that the amount available under a standby is reduced by honour of a payment demand. However, if a standby includes a term that reinstates any honoured amount (e.g., after honour of a drawing to fund a periodic interest payment due on an underlying debt obligation) or a term that automatically reduces the amount available (e.g., with the passage of time) or permits a reduction (e.g., by presentation of a document evidencing a direct partial payment of an underlying debt obligation), then it may be desirable for the standby to state that honour reduces the amount available and to relate that statement to any other reduction event or reinstatement event to be included in the standby.

A statement in a standby that a payment made by an applicant to a beneficiary shall reduce the amount available under the standby may constitute a “non-documentary condition”. Under ISP98 Rule 4.11 (Non-Documentary Terms or Conditions), a non-documentary condition must be disregarded. Accordingly, an applicant-to-beneficiary payment will not reduce the amount available under a standby unless the standby provides for reduction based on the issuer’s own records of a payment made by or through the issuer (or the standby provides for reduction against a presentation to the issuer of a document evidencing or reciting that the payment was made).

Standbys supporting the applicant's accounting to the beneficiary for advance payments received frequently provide that the amount available under the standby must reduce pro rata as shipments are made or invoices are sent or paid. Such provisions are also subject to ISP98 Rule 4.11 (Non-Documentary Terms or Conditions) and are best handled by identifying documents or banking activities to which the issuer has access, e.g., by relating pro rata reductions under an advance payment standby to the issuer's negotiation or receipt of commercial documents as a nominated bank under a commercial letter of credit paying the purchase price less the pro-rata advance payment.

If payment under a standby may be made by the issuer at the request of the applicant or on the issuer's own initiative, then the standby should affirmatively provide for such payment, preferably by specifying in the standby the beneficiary account to which such payment must be made with an undertaking to send an advice of payment to the beneficiary (and applicant). This kind of standby provision may be worded as a payment demand authorized by the beneficiary to be made in its name or may be worded as a beneficiary consent to automatic reduction against such payment, whether considered to have been under or outside the standby. See ISP98 Form 2, endnote 2, for a model standby term permitting the issuer to initiate early expiration by making full payment to the beneficiary.

⁴ Demand for reduction. This model form of reduction demand is called a "demand" for the sake of clarity. It is not a model form of full or partial cancellation to be used with a standby that is silent on the topic. It is to be used with a standby that obligates the issuer to give effect to a beneficiary demanded reduction. Otherwise, an issuer may exercise considerable discretion before giving effect to a request to reduce the amount available or to amend, cancel, or release obligations under a standby, as provided in ISP98 Rule 2.06 (When an Amendment is Authorised and Binding) and Rule 7 (Cancellation). Until the issuer recognizes a requested reduction, the applicant remains liable to pay fees and contingently liable to reimburse based on the maximum amount available under the standby. For the avoidance of doubt, the standby text uses the word "automatic" to clarify that no issuer (or applicant) consent is required, merely presentation of a complying reduction demand. See ISP98 Rule 2.06(a) (When an Amendment is Authorized and Binding).

⁵ Statement of continuing requirements for standby support. A standby that permits reduction by the presentation of a demand or other documents typically arises out of an underlying agreement that obligates the beneficiary to the applicant to initiate a reduction when a contractual milestone is met. In their negotiation of their underlying contractual obligations and the related standby terms, the contracting parties may require a more specific beneficiary statement regarding the basis for a demanded reduction.

⁶ Authentication. This annexed form of reduction demand requires the same level of authentication as the annexed form of payment demand. ISP98 Rule 7 (Cancellation) lists additional conditions that the beneficiary, applicant, or issuer might wish to consider to deter unauthorized reduction demands.

ISP98 Form 4
Model Standby Providing for Transfer and
Incorporating Annexed Form of Transfer Demand*

[name and address of beneficiary]

[date of issuance]

Issuance. At the request and for the account of **[name and address of applicant]** (“Applicant”), we **[name and address of issuer at place of issuance]** (“Issuer”) issue this irrevocable standby letter of credit number **[reference number]** (“Standby”) in favour of **[name and address of beneficiary]** (“Beneficiary”) in the maximum aggregate amount of **[currency/amount]**.

Undertaking. Issuer undertakes to Beneficiary to pay Beneficiary’s demand for payment in the currency and for an amount available under this Standby and in the form of the Annexed Payment Demand completed as indicated and presented to Issuer at the following place for presentation: **[address of place for presentation]**, on or before the expiration date.

Expiration. The expiration date of this Standby is **[date]**.

[Payment. Payment against a complying presentation shall be made within 3 business days after presentation at the place for presentation or by wire transfer to a duly requested account of Beneficiary. An advice of such payment shall be sent to Beneficiary’s above-stated address.]

[Reduction. Any payment made under this Standby shall reduce the amount available under it.]

[Partial and multiple drawings are permitted.]

Transfer.¹ This Standby is transferable.² Beneficiary’s drawing rights under this Standby shall be transferred in their entirety by presentation of a demand³ in the form of the Annexed Transfer Demand completed as indicated *[together with this Standby]*⁴ to Issuer at the above-stated place for presentation. Upon presentation⁵ of a complying demand for transfer, the person identified as the transferee shall become the Beneficiary, whose name and address *[and duly provided bank account information for any requested payment by wire transfer of funds]* shall be substituted for that of the transferor on any demands, requests, or consents then or thereafter required or permitted to be made by Beneficiary.⁶ Subject to compliance with applicable law⁷ *[and receipt of its customary or agreed transfer fees⁸]*, Issuer must acknowledge and shall effect the demanded transfer⁹ and shall issue its advice of transfer to the *[transferor and]*transferee.¹⁰

ISP98. This Standby is issued subject to the International Standby Practices 1998 (ISP98) (International Chamber of Commerce Publication No. 590).

*[Communications. Communications other than demands may be made to Issuer by telephone, telefax, or SWIFT message, to the following: **[numbers/addresses]**. Beneficiary requests for amendment of this Standby, including amendment to reflect a change in Beneficiary's address, should be made to Applicant, who may then request Issuer to issue the desired amendment.]*

[Issuer's name]

[signature]
Authorized Signature

Annexed Payment Demand

[INSERT DATE]

[name and address of Issuer or other addressee at place of presentation as stated in standby]

Re: Standby Letter of Credit No. **[reference number]**, dated **[date]**, issued by **[Issuer's name]** ("Standby")

The undersigned Beneficiary demands payment of **[INSERT CURRENCY/AMOUNT]** under the Standby.

Beneficiary states that Applicant is obligated to pay to Beneficiary the amount demanded[, *which amount is due and unpaid*] under[*or in connection with*] the agreement between Beneficiary and Applicant titled **[agreement title]** and dated **[date]**.

[Beneficiary further states that the proceeds from this demand will be used to satisfy the above-identified obligations and that Beneficiary will account to Applicant for any proceeds that are not so used.]

Beneficiary requests that payment be made by wire transfer to an account of Beneficiary as follows: **[INSERT NAME, ADDRESS, AND ROUTING NUMBER OF BENEFICIARY'S BANK, AND NAME AND NUMBER OF BENEFICIARY'S ACCOUNT]**.

[Beneficiary's name and address]

By its authorized officer:

[INSERT ORIGINAL SIGNATURE]
[INSERT TYPED/PRINTED NAME AND TITLE]

Annexed Transfer Demand

[INSERT DATE]

[name and address of Issuer or other addressee at place of presentation as stated in standby]

Re: Standby Letter of Credit No. **[reference number]**, dated **[date]**, issued by **[Issuer's name]** ("Standby")

The undersigned Beneficiary demands¹¹ transfer of drawing rights in their entirety, including rights to demand further payment[, *reduction, cancellation,*] and transfer¹² under the Standby and rights to give or withhold consent to any pending or future amendment or cancellation, to the following person at the following address: [INSERT NAME AND ADDRESS OF THAT PERSON]

_____]

[and with the following bank account for payment by wire transfer of funds to that person
[INSERT NAME, ADDRESS, AND ROUTING NUMBER OF THAT PERSON'S BANK AND NAME AND NUMBER OF THAT PERSON'S ACCOUNT]].

Beneficiary states that the above-identified person is the transferee, from and after the effective date stated below, of all of Beneficiary's rights that are supported by the Standby *[and Beneficiary's related obligations]* under *[or in connection with]* the agreement between Beneficiary and Applicant titled **[agreement title]** and dated **[date]**.¹³

Beneficiary further states that there are no outstanding demands by Beneficiary for any other transfer or for any payment[, *or for any reduction or cancellation*] under the Standby. Beneficiary agrees to make no such demands or requests while this demand is outstanding.

*[Accompanying this demand is the Standby.]*¹⁴

Please effect the demanded transfer *[as of the following effective date: [INSERT DATE]*
_____.¹⁵ *Please do so]* by marking and delivering the Standby or by delivering a replacement to the above-identified person as the transferee beneficiary and then notify the undersigned thereof.

*[Also accompanying this demand is Issuer's transfer fee of an amount equal to **[percentage amount]**% of the amount of the standby to be transferred but not to exceed **[currency/amount]**].*

[Beneficiary's name and address]

By its authorized officer:

[INSERT ORIGINAL SIGNATURE]

[INSERT TYPED/PRINTED NAME AND TITLE]¹⁶

[Before the standby is issued, all text in **[bold]** should be completed, and optional text in *[italics]* should be included or deleted (or redrafted). Text in the annexed demand forms preceded by “INSERT” (or other ALL CAPITALS guidance) and in [ALL CAPITALS UNDERLINED] is to be completed as indicated when the beneficiary prepares and presents a demand.]

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This ISP98 Form 4 model standby repeats the text of ISP98 Form 1. It adds standby text and incorporates a model transfer demand form that obligates the issuer to acknowledge a transfer of drawing rights upon receipt of the transfer demand completed and presented by the beneficiary. Like ISP98 Form 1, this Form 4 is intended to be self-contained and, absent special circumstances, useable without extended reference to the text of ISP98.

The endnotes to this standby include alternative and other optional terms of particular relevance to standbys providing for transfer on demand or automatic reduction (including reduction to zero), as well as references to relevant ISP98 rules. See the ISP98 Form 1 endnotes for explanation of wording that is common to ISP98 Forms 1 and 3 and for alternative and optional wording for general terms common to both forms.

These endnotes do not include model wording for a form that an issuer might use when requested to give effect to a transfer that the issuer is not obligated to acknowledge.

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¹ Transfer; succession; and assignment of proceeds. ISP98 Rule 6 (Transfer, Assignment, & Transfer by Operation of Law) provides separate rules for contractual transfer of drawing rights, for transfer of drawing rights to a legal successor, and for assignment of the proceeds of a beneficiary’s drawing.

If a standby does not state that it is transferable, then under ISP98 Rule 6.02(a) (When Drawing Rights are Transferable), a request for transfer of the beneficiary’s drawing rights, other than from a claimed legal successor, can be processed only as a request for amendment or for cancellation and new issuance.

Under ISP98 Rules 6.11-6.14 (Transfer by Operation of Law and/or applicable law, a legal successor may claim the rights of a transferee beneficiary under an otherwise non-transferable standby. Beneficiaries requiring additional certainty or clarity regarding the status of a legal successor to the beneficiary may wish to include in the standby, e.g., “Issuer undertakes to treat Beneficiary’s successor by operation of law as the authorised transferee of Beneficiary against presentation of the additional documents(s) from a public official referred to in ISP98 Rule 6.12, such as a document issued by **[identification of public official]** authorising or appointing the claimed successor as Beneficiary’s liquidator, rehabilitator, receiver, or conservator.” Separately from the terms of the standby and ISP98, a legal successor may be entitled by applicable law to sign demands and otherwise act as the named beneficiary. The ISP98 rules for legal successors address those successors that would sign as a named successor and not as the named beneficiary.

The word “assignable” does not mean “transferable” for purposes of ISP98. See ISP98 Rule 1.10(c)(ii) (Redundant or Otherwise Undesirable Terms) and ISP98 Rules 6.06-6.10 (Acknowledgement of Assignment of Proceeds). In general, ISP98 Rule 6 protects applicants as well as issuers against presentations made by a third party but protects only issuers against requests to pay to a third party part or all of the proceeds resulting from a complying presentation made by the beneficiary.

Ordinarily, requests for assignments of proceeds are made after standby issuance. Issuer acknowledgement of an assignment could be included in a standby, e.g.: “Payment against a complying presentation shall be made at the place for presentation or by wire transfer to a duly requested account of Beneficiary, except for the following amount: **[currency/amount]**, which Beneficiary has irrevocably assigned to the following acknowledged assignee of standby proceeds with the following bank account **[name and address of assignee; name, address, and routing number of assignee’s bank; and name and number of assignee’s account]**. An advice of each such payment shall be sent to Beneficiary’s above-stated address.”

² Permitted transfers. Under ISP98 Rules 6.02(b) (When Drawing Rights are Transferable), if a standby states that it is transferable, without more, then drawing rights under it may be transferred by the beneficiary in their entirety (not partially). Successive transfers of entire rights under a transferable standby are allowed in ISP98 Rule 6.02(b)(1) (When Drawing Rights are Transferable). All such transfers, however, require that the issuer agrees and effects the transfer requested by the beneficiary under the largely discretionary provisions of ISP98 Rules 6.01-6.05 (Transfer of Drawing Rights). Issuers regularly do so against the beneficiary’s payment of a fee and completion of the issuer’s own forms, which may differ significantly from the annexed model form of transfer demand in this ISP98 Form 4.

³ Transfer by beneficiary demand. If a beneficiary requires certainty that its request for transfer will be effected, then the standby should state that the issuer must effect transfer against presentation of a specified document. ISP98 Form 4 so provides and incorporates an annexed model form of transfer demand that makes it unnecessary for the beneficiary to rely on transfer at the discretion of the issuer under ISP98 Rule 6.03 (Conditions to Transfer).

⁴ Presentation of standby. This form, like most standbys, does not require presentation of the standby with a payment demand. If, however, a standby requires presentation of the standby with any payment demand, then its presentation should be required with any transfer demand. Its presentation with any transfer demand should also be required if transfer is to be evidenced by the issuer's marking the standby and delivering it to the transferee beneficiary. Its presentation might also be required to indicate that the transfer demand is authentic. See ISP98 Form 1, endnote 9 for an extended discussion of requirements for the presentation of the original standby.

⁵ Effective date of transfer. It is generally desirable to clarify and coordinate the effective date of a transfer of drawing rights in their entirety with the effective date of transfer of the underlying obligations supported by the standby. This coordination may be accomplished by changing the model standby text from "Upon presentation of a complying demand for transfer..." to "Upon presentation of, or any later effective transfer date stated in, a complying transfer demand...." The standby should not impose any non-documentary condition that would require the issuer to determine whether or when the underlying obligations were transferred.

⁶ Transferee as substituted beneficiary. A transfer of drawing rights in their entirety includes a beneficiary's rights to demand any permitted further transfer or consent to any pending or future amendment or cancellation of the standby. Accordingly, any demand, statement, or other required document to be presented under a transferable standby must bear the name of the transferee rather than of the transferor. See ISP Rule 6.04 (Effect of Transfer on Required Documents). If a transfer of less than the entire rights of the beneficiary is contemplated or if rights exercised before transfer by the transferor are to be transferred, or if both the transferee and transferor intend to have veto rights over past or future amendments to the standby, then the transfer term and the annexed form of transfer demand in this ISP98 Form 4 should be revised to expressly re-allocate any beneficiary rights that are to be recognized by the issuer.

⁷ Compliance with law. Processing a transfer request or demand includes checking the transferee's name and other information against applicable sanctions' lists. See ISP98 Form 1, endnote 19, on sovereign compulsion and sanctions' clauses.

⁸ Issuer's transfer fee. Issuers expect to receive a fee for processing a transfer request or demand. This optional text in this ISP98 Form 4 addresses that expectation, and the annexed form of transfer demand includes optional text that more precisely states the amount of the transfer fee. They would be unnecessary if the issuer relied solely on the applicant to pay transfer fees.

⁹ Mandatory transfer. Because this standby form provides for transfer by demand, it includes an undertaking that the issuer "must" give effect to a complying demand for transfer. Because effecting transfer is mandatory, the issuer's undertaking to effect a demanded transfer should state any conditions other than presentation of a complying transfer demand. The issuer may prefer to include those conditions in the transfer term in the standby even if they are included in the text of the required transfer demand form.

¹⁰ Advice of transfer. Because this standby form provides for mandatory transfer, it includes an

undertaking by the issuer to give effect to a complying transfer demand by issuing an advice of transfer that documents the transferee beneficiary's rights under the standby.

¹¹ Annexed transfer demand. The annexed model form of demand for transfer is called a “demand” for the sake of clarity. This ISP98 Form 4 standby obligates the issuer to effect transfer against receipt of a specified document. Accordingly, this is not a model form of transfer request to be used with a standby that is “transferable” but allows the issuer to exercise its discretion as to how and whether to recognize a requested transfer under ISP98 Rules 6-01-6.05 (Transfer of Drawing Rights) or under ISP98 Rules 6.11-6.14 (Transfer by Operation of Law).

¹² Rights transferred. Under ISP98 Rule 6.02(b)(i) (When Drawing Rights are Transferable), it is unnecessary for a transferable standby to provide expressly for successive transfers or for transfer of any particular beneficiary rights, such as the right to demand reduction or to consent (or not) to a pending or future amendment.

¹³ Statement of underlying transfer of supported obligations. A standby that undertakes to effect transfer against the presentation of a demand or other documents is typically underpinned by an agreement that obligates the beneficiary to the applicant to demand a transfer of drawing rights only when the underlying contractual obligations are being rightfully and fully transferred. In their negotiation of their underlying contractual obligations and the related standby terms, the contracting parties may require a more specific beneficiary statement regarding the basis for a demanded transfer.

¹⁴ Standby enclosed. If the text of a standby requires presentation of the standby (or any beneficiary statement as to the existence and status of any amendments, demands, or other activity affecting the standby), then the annexed form of demand for transfer should address those requirements. See endnote 4 to this ISP98 Form 4 and endnote 9 to Form 1.

¹⁵ Postponed effective date. This optional wording addresses the possibility that the effective date of a transfer is to occur after presentation of the beneficiary's demand for transfer.

¹⁶ Authentication. This model form of annexed transfer demand requires the same level of authentication as the model form of payment demand. ISP98 Rule 7 (Cancellation) lists additional conditions that the beneficiary, applicant, or issuer might wish to consider to deter unauthorized transfer demands.

ISP98 Form 5

Simplified Demand Only Standby*

[name and address of beneficiary]

[date of issuance]

On the application of [name and address of applicant], we, [name and address of issuer], issue in your favour this standby letter of credit No. [number] subject to the International Standby Practices 1998 (ISP98) (ICC Publication No. 590)¹ in the amount of [currency/amount], payable² against presentation of your demand³ to us at [address of place for presentation]⁴ on or before [date].⁵

[issuer's name]

[signature]

Authorized Signature

[Before the standby is issued, all text in **[bold]** should be completed.]

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This is a form of simplified demand only standby. It relies on the incorporated ISP98 Rules to fill gaps, particularly as to the form of demand required to obtain honour. The endnotes to this form identify the gap-filling Rules.

This ISP98 Form 5 is intended to show that a simplified form of standby calling for a demand only is feasible. See ISP98 Form 1 (Model Standby Incorporating Annexed Form of Payment Demand (with Statement) for a more self-contained model standby with more extensive endnotes.

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¹ Incorporation of ISP98. ISP98 Rule 1.06 provides that an ISP98 standby is "an irrevocable, independent, documentary, and binding undertaking when issued and need not so state". It is thus unnecessary for an ISP98 standby to recite that it is enforceable without regard to the validity of any claim of performance or non-performance in the underlying transaction. It is unnecessary to add a recital (including an "integration" or "merger" clause) that would deny or limit the effect of any document or other matter mentioned in the standby or of any negotiations leading up to or following standby

issuance. Such clauses and recitals risk limiting the various ISP98 rules that provide for the standby's independence.

² Honour by payment. ISP98 Rules 2.01 (Undertaking to Honour by Issuer and Any Confirmer to Beneficiary) and 5.01 (Timely Notice of Dishonour) provide that an issuer undertakes to honour a complying presentation and that an issuer has at least three, but not more than seven, business days after presentation either to pay or send a notice of dishonour.

³ Presentation of demand. This ISP98 Form 5 requires presentation of a demand but, unlike ISP98 Forms 1-4, this simplified standby does not describe or annex a required form of demand. ISP98 Rule 4.16 (Demand for Payment) requires that a demand for payment identify the standby as indicated in Rule 3.03 (Identification of Standby), state the amount demanded, be from the beneficiary and directed to the issuer, and be dated and signed as indicated in Rule 4.16 (Demand for Payment). ISP98 does not require that a demand be in the form of a "draft" or "bill of exchange" or include any other statement or be accompanied by any other document. ISP98 Rule 3.08 (Partial Drawing and Multiple Presentations; Amount of Drawings) provides that a beneficiary has the right to present partial and multiple demands. A beneficiary preparing a demand under this simplified form of standby could simplify the wording in the annexed demand form in ISP98 Form 1.

⁴ Complying presentation. To the extent that a standby that fails to state where, how, and to whom presentation must be made, ISP98 Rules 3.04 (Where and to Whom Complying Presentation Made) and 3.06 (Complying Medium of Presentation) apply. Those rules generally require physical presentation of a paper document to the issuer but allow a beneficiary that is a bank or SWIFT participant to present a demand using SWIFT or other similar authenticated means.

⁵ Expiration. Standbys must provide for their termination under ISP98 Rule 9.01 (Duration of Standby) and likely also under applicable commercial law and banking regulations. This form of standby is based on the common practice of stating a specific calendar date as the expiration date, i.e., the latest date for presentation. ISP98 Rules 3.13 (Expiration Date on a Non-Business Day) and 3.14 (Closure on a Business Day and Authorization of Another Reasonable Place for Presentation) provide for an extension if the place for presentation is closed on that date.

[IIBLP as of 31 March 2012]

ISP98 Form 6
Model Counter Standby with Annexed Form of Local Bank
Undertaking*

[name and address of local bank beneficiary]

[date of issuance]

At the request and for the account of **[name and address of applicant]** (“Applicant”),¹ we **[name and address of issuer at place of issuance]** (“Issuer”) issue this irrevocable standby letter of credit number **[reference number]** (“Counter Standby”) in favour of **[name and address of beneficiary]** (“Beneficiary”)² in the maximum aggregate amount of **[currency/amount]**.

This is a counter standby³ letter of credit supporting Beneficiary’s issuance of its separate *[local bank]* undertaking⁴ in the form of the Annexed Local Undertaking⁵ *[to be issued on or before [date]]*.⁶

Issuer undertakes to Beneficiary to pay Beneficiary’s demand that includes⁷ Beneficiary’s statement⁸ that Beneficiary issued its Local Undertaking as provided in the Counter Standby and has received *[and honoured]* a complying demand under its Local Undertaking in the amount hereby demanded from Issuer, if Beneficiary’s demand is presented to Issuer on or before the expiration date either as an originally signed paper document at Issuer’s above-stated address or as an authenticated SWIFT message sent to Issuer’s SWIFT address **[SWIFT code]** from Beneficiary’s SWIFT address **[SWIFT code]**.⁹

The expiration date of this Counter Standby is **[date]**.¹⁰

[Payment against a complying presentation shall be made within three business days after presentation at the place for presentation or by wire transfer to a duly requested account of Beneficiary.]

This Counter Standby is issued subject to the International Standby Practices 1998 (ISP98) (International Chamber of Commerce Publication No. 590).¹¹

[Issuer’s name]

[signature]

Authorized Signature

Annexed Local Undertaking

[INSERT DATE]

[name and address of person indicated in counter standby as the intended local beneficiary of the local bank undertaking]

On the application of [counter standby applicant's name and address], [counter standby issuer's name and address] has issued to us a standby letter of credit supporting our issuance of this undertaking to you.

We, [name and address of local bank], issue in your favour our [*standby letter of credit*] [*guarantee*] [*undertaking*] No. [INSERT REFERENCE NUMBER] in the amount of [currency/amount] payable against your demand for payment presented on or before [date] to us at [address of place for presentation], that identifies this undertaking, states the amount demanded, and includes your certificate that the amount demanded is due to you from [counter standby applicant's name] under [*numbered agreement sections or identified obligations to perform bid, bonding, delivery, warranty or other obligation or to account for advance payments received of*] your agreement titled [agreement title] and dated [date].¹²

Our undertaking is subject to the International Standby Practices 1998 (ISP98) (ICC Publication No. 590).¹³

[local bank issuer's name]

[INSERT ORIGINAL SIGNATURE]

Authorized Signature

[Before the counter standby with annexed form of local bank undertaking is issued, all text in **[bold]** should be completed, and optional text in [*italics*] should be included or deleted (or redrafted). All text preceded by "INSERT" (or other ALL CAPITALS guidance) and in [ALL CAPITALS UNDERLINED] is to be completed as indicated when the annexed local undertaking is prepared and issued.]

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This ISP98 Form 6 is a model form for a commonly used type of standby. As described in the Preface to ISP98, a "Counter Standby" supports the issuance of a separate standby or other undertaking by the beneficiary of the counter standby. The beneficiary of a counter-standby is typically another bank familiar with acting as a standby beneficiary and issuer and doing so by receiving and sending authenticated SWIFT messages as well as paper documents. Most counter standbys are issued as inter-bank authenticated SWIFT messages, and this ISP98 Form 6 could be adapted to a SWIFT message format.

The annexed form of local bank undertaking is also an ISP98 standby, but it could take many other forms. The local undertaking to be annexed to a counter standby should reflect the input of the local bank and local beneficiary, as well as the counter standby issuer and its applicant.

The endnotes to this ISP98 Form 6 refer to ISP98 rules of particular relevance to counter standbys. See the endnotes to ISP98 Form 1 for explanation of wording that is common to ISP98 Forms 6 and 1 and for alternative and optional wording.

A standby that provides for confirmation by another bank serves substantially the same purpose as a counter standby that supports another bank's local undertaking. Either type of standby can be worded to reduce or expand the differences between the two under ISP98. See the ISP98 Form 7 Model Standby Providing for Confirmation for an alternative to this Form 6 Model Counter Standby with Annexed Form of Local Bank Undertaking.

This form is published for educational purposes and not as legal or professional advice. Potential users should consult with their own advisers in the drafting or use of a standby letter of credit. ISP98 and letter of credit educational and training materials, including *The Official Commentary on the International Standby Practices* containing official interpretations of ISP98, are available from IIBLP at www.iiblp.org.

¹ Applicant. The applicant for a counter standby typically has a “bid”, “performance”, “advance payment”, or other such obligation to a distant contracting party that must be supported by a local bank standby, guarantee, bond, or other undertaking. The applicant for the counter standby applies to its bank for issuance of a counter standby in order to meet the requirements of a local bank for an assured right of incoming payment in case the local bank must honour its local undertaking.

² Beneficiary. The beneficiary named in a counter standby (like the issuer of the counter standby) is typically a bank that, on the basis of the counter standby, issues its own local bank standby, guarantee, bond, or other undertaking. The references in this model form and endnotes to “local bank” and “local bank undertaking” (and to “local undertaking” and “local beneficiary”) are for convenience in distinguishing the two different undertakings and the two different sets of issuers and beneficiaries involved in counter standby practice. The beneficiary of the counter standby need not be a bank. Its status as a non-bank might affect the nature of its local undertaking, but should not affect the independence of the counter standby under ISP98.

³ Counter standby name. While this model form is named a “counter standby”, the name is not determinative of its character as an undertaking within the scope of ISP98 or as an independent undertaking under applicable law. As noted in the ISP98 Preface, categorizing standbys based on the type of underlying transaction does not affect the application of the ISP98 Rules.

⁴ Request for local bank undertaking. This counter standby form assumes, but does not itself request, issuance by the beneficiary of a separate undertaking. ISP98 Rule 8.02 (Charges for Fees and Costs) obligates an issuer to pay the reasonable and customary fees and expenses of a beneficiary requested by the issuer to issue a separate undertaking, if otherwise unrecovered and unrecoverable. Accordingly, it may be desirable to clarify in the counter standby whether and to what extent the counter standby issuer must pay such

fees and expenses.

ISP98 Rule 4.21(a) (Request to Issue Separate Undertaking) provides that a beneficiary of a counter standby receives no rights “other than its rights to draw under the standby even if the issuer pays a fee to the beneficiary for issuing the separate undertaking.”

⁵ Form of local bank undertaking. The local bank undertaking may be a standby letter of credit, independent guarantee, dependent guaranty, bond, or contractual promise. This model form of counter standby specifies by annex the type and terms of the local bank undertaking.

⁶ Delivery of local undertaking. If the local bank undertaking is to be delivered to the applicant’s representative, then details for such delivery (and the effect of non-delivery or return of the local bank undertaking) should be added to the counter standby.

If it is desired that issuance of the counter standby be deferred until the local bank undertaking is issued, then ISP98 Rules 2.03 (Conditions to Issuance) and 4.11 (Non-Documentary Terms or Conditions) should be consulted. These same rules should be consulted if it is desired that issuance of the counter standby be deferred until an advance payment is actually made to the applicant for the counter standby.

⁷ Unstated requirements for demand. The word “includes” signals that there are unstated requirements for a complying demand, i.e., the demand must also include a date and identification of the counter standby. See ISP98 Form 1, endnote 10, and ISP98 Form 5, endnote 3.

⁸ Statements. Beneficiary statements included in a counter standby form of demand are sometimes limited to the beneficiary’s issuance of the requested local bank undertaking, receipt of a complying demand for payment thereunder, and incurrence of an absolute obligation to pay. Beneficiary statements under a counter standby sometimes also recite that payment has been made under the local bank undertaking (in which case the counter standby may provide for same day payment or payment with value from the date the beneficiary states that it funded its local undertaking).

If a counter standby requires presentation of (a copy of) the local bank undertaking issued or of the demand received under the local bank undertaking, then the standby text should state whether and how such documents are to be examined by the counter standby issuer. If a counter standby does not require their presentation but such documents are nonetheless presented under the counter standby, then ISP98 Rule 4.21(c) (Request to Issue Separate Undertaking) provides that the issuer of the counter standby “shall disregard their compliance or consistency with the standby, with the beneficiary’s demand under the standby, or with the beneficiary’s separate undertaking” and may return or forward any such documents.

Beneficiary statements typically are made to the issuer of the counter standby (bank to bank) and not to the applicant for the counter standby. They typically do not include

representations as to whether the applicant is obligated in any underlying transaction. In this regard it is assumed that the documentation for the transaction underlying a local bank undertaking will adequately establish the applicant's contractual obligations to provide a local bank undertaking and the applicant's contractual rights and remedies in case of a disputed drawing or a disputed use of proceeds from a drawing.

If a counter standby provides that it may be terminated on advance notice given by the issuer, then the required form of beneficiary statement should permit the local bank beneficiary to demand payment under the counter standby and hold the proceeds as security against a possible future drawing under its local bank undertaking. See ISP98 Form 2 for model wording and alternative and optional wording for automatic extension and for demand following a notice of non-extension.

⁹ Presentation via SWIFT. This counter standby form expressly permits presentation of a demand via authenticated inter-bank SWIFT message. ISP98 Rule 3.06 (Complying Medium of Presentation) permits such presentations without express wording in the standby as between SWIFT bank members.

¹⁰ Expiration. The terms of a counter standby and of a local bank undertaking should be drafted in light of the terms of the underlying obligation and should address the possibility that the counter standby or the local bank undertaking or both may expire prematurely relative to the underlying transaction.

ISP98 Rule 3.09 (Extend or Pay), while not specific to counter standbys, addresses a practice that is particularly associated with demands made under counter standbys. Typically the beneficiary of a counter standby issues a local undertaking that will expire several days before the counter standby will expire. If the counter standby issuer does not timely affirmatively extend its counter standby, then the local bank beneficiary of the counter standby may make a so-called "extend or pay" demand before the counter standby will expire. Under this ISP98 rule, an issuer examines any "extend or pay" demand for compliance as a demand for payment and, whether or not the demand complies, treats the demand as separately requesting an amendment extending the counter standby. See ISP98 Form 2, endnote 13.

Some counter standbys provide for automatic extension with a right to terminate a future automatic extension by giving advance notice. In such cases particularly, the counter standby and local bank undertaking should be aligned so that the local bank beneficiary may demand payment whenever the counter standby is about to expire before the local bank undertaking will expire. See endnote 8 to this ISP98 Form 6

¹¹ Choice of law; choice of forum. A counter standby may usefully include a choice-of-law and choice-of-forum clause. A choice of law or forum or both in a counter standby would apply to the standby issuer's obligations and not to the obligations of the local bank beneficiary under its separate undertaking. See ISP98 Form 1, endnote 19, on law/forum clauses, including the availability of arbitration under the ICLOCA rules.

¹² Certificate. The certificate may be included in the demand made under this form of local bank undertaking. If in separate documents, the certificate, as well as the demand, should be dated and signed. See ISP98 Rules 4.07 (Required Signature on a Document), 4.12 (Formality of Statements in Documents), 4.16 (Demand for Payment), and 4.17 (Statement of Default or Other Drawing Event).

¹³ Incorporation of ISP98. This form of local bank undertaking states that it is subject to ISP98. ISP98 is available for use in any country that will enforce letters of credit and demand guarantees independently of the issuer's reimbursement rights and the beneficiary's rights in the underlying transaction.

Issuance of a counter standby subject to ISP98 does not require that the local bank undertaking also be issued subject to ISP98 (or by a bank). Unless an ISP98 counter standby otherwise states, the local bank undertaking could be issued as an independent undertaking subject to ISP98 or to other rules or to no rules, or it could be issued as a dependent undertaking. Similarly, the local bank undertaking could be issued subject to law other than the law applicable to an ISP98 counter standby or to any underlying transaction.

[IIBLP as of 31 March 2012]

ISP98 Form 7

Model Standby Requiring Confirmation*

[name and address of beneficiary or nominated person or both] **[date of issuance]**

Issuance. At the request and for the account of **[name and address of applicant]** (“Applicant”), we **[name and address of issuer at place of issuance]** (“Issuer”) issue this irrevocable standby letter of credit number **[reference number]** (“Standby”) in favour of **[name and address of beneficiary]** (“Beneficiary”) in the maximum aggregate amount of **[currency/amount]**.

Expiration. The expiration date of this Standby is **[date]**.

Nomination. Issuer nominates **[name and address of nominated person]** to advise¹ and confirm² this Standby.

Confirmation required.³ If the nominated person does not issue its confirmation on or before **[date]**,⁴ then this Standby shall be automatically cancelled.⁵

Presentations. If the nominated person issues its confirmation to Beneficiary, then all presentations must be made to the nominated person (“Confirmer”) at a place of presentation stated in its confirmation (“Confirmation”).⁶ Presentations by Beneficiary to Issuer shall not affect Issuer’s obligations under this Standby and may be disregarded by Issuer, whether or not this Standby is confirmed.⁷

Undertaking.⁸ Issuer undertakes to Beneficiary and to Confirmer that Issuer shall honour this Standby by reimbursing Confirmer for Confirmer’s payment[*if Confirmer rightfully honours a presentation made under its Confirmation,*]⁹ if the document(s) presented to Confirmer on or before the above-stated expiration date¹⁰ are promptly forwarded¹¹ by Confirmer to Issuer for examination by Issuer,¹² and if the forwarded documents include the following: Beneficiary’s demand that (i) identifies this Standby (by the name and address of the Issuer and of the Applicant and reference number for this Standby, as shown above) and identifies the Confirmation (by the name and address of the Confirmer and reference number for the Confirmation), (ii) is dated and signed by Beneficiary, and (iii) states that Applicant is obligated to pay to Beneficiary the amount demanded under the agreement between Beneficiary and Applicant titled **[agreement title]** and dated **[date]**.¹³ This is Issuer’s only undertaking.¹⁴ Issuer disclaims any obligation based on Confirmer’s dishonour of its obligations.¹⁵

*[Charges. Beneficiary shall be solely responsible for payment of Confirmer’s fees and charges under or in connection with its Confirmation. Issuer disclaims for itself and Applicant any responsibility for Confirmer’s fees, costs, or other charges under ISP98 Rule 8.02 or otherwise.]*¹⁶

ISP98. This Standby is issued subject to the International Standby Practices 1998 (ISP98) (International Chamber of Commerce Publication No. 590).

*[Communications. Communications other than documents forwarded by Confirmer may be made to Issuer by telephone, telefax, or SWIFT message, to the following: [numbers/addresses]. Confirmer/nominated person should promptly communicate to Issuer whether, when, and how it advises and confirms this Standby. Beneficiary requests for amendment of this Standby, including amendment to reflect a change in Beneficiary's address, should be made to Applicant, who may then request Issuer to issue the desired amendment subject to Confirmer's consent.]*¹⁷

[Issuer's name]

[signature]

Authorized Signature

[Before the standby is issued, all text in **[bold]** should be completed and optional text in *[italics]* should be included or deleted (or redrafted).]

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This ISP98 Form 7 model standby assumes that the beneficiary has requested the applicant to arrange for confirmation by a confirmer, typically a bank, that is closer and better known to the beneficiary than the standby issuer. Accordingly, this form is focused on inducing the issuance of the desired confirmation. It requires that the confirmer timely issue a confirmation and that the beneficiary present to the confirmer only. It provides for payment by the standby issuer to the confirmer only.

This ISP98 Form 7 model standby authorizes issuance of the ISP98 Form 8 model confirmation.

This ISP98 Form 7 model standby may be usefully compared and contrasted, both functionally and structurally, to the ISP98 Form 6 model counter standby that supports issuance of a local bank undertaking.

The endnotes to this form include alternative and other optional terms of particular relevance to standbys that provide for confirmation, as well as references to relevant ISP98 rules. See the ISP98 Form 1 model standby endnotes for explanation of wording that is common to ISP98 Forms 1 and 7 and for alternative and optional wording.

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¹ Nomination to advise. A standby that nominates a person to confirm typically also nominates that person to advise the standby. As to the limited significance of advising a standby, see ISP98 Rules 2.05 (Advice of Standby or Amendment) and 2.07 (Routing of Amendments).

² Nomination to confirm. Under ISP98 Rule 1.09(a) (Definitions) a “confirmer” must be nominated by the standby issuer, and under Rule 1.11(c) (Interpretation of these Rules) a confirmation is generally treated as a separate standby issued by the confirmer for the account of the standby issuer.

³ Confirmation required. This ISP98 Form 7 is based on an underlying agreement between the applicant and the beneficiary that the applicant will arrange for a standby to be either issued or confirmed by a beneficiary-approved bank. Where the applicant applies for a standby to be confirmed by a beneficiary-approved bank, the focus is on the beneficiary’s satisfaction with the confirmation and on the confirmer’s satisfaction with the standby. In this context, a standby that nominates a beneficiary-approved confirmer but is not confirmed fails to satisfy the underlying agreement and likely requires a substantial change in the underlying agreement or standby terms or both.

If, however, the standby is to be useable even though no confirmation is issued, then the text of the standby should be redrafted. In particular, the issuer’s undertaking should be redrafted to substitute, e.g.: “If the person nominated to confirm does not issue its confirmation, then Issuer undertakes to Beneficiary to pay against presentation to Issuer on or before the expiration date at the following place for presentation: **[address of place of presentation to Issuer]** of Beneficiary’s demand that (i) identifies this Standby (by the name and address of the Issuer and of the Applicant and reference number for this Standby, as shown above), (ii) is dated and signed by Beneficiary, (iii) states that Applicant is obligated to pay to Beneficiary the amount demanded under the agreement between Beneficiary and Applicant titled **[agreement title]** and dated **[date]**, and (iv) states that no confirmation of this Standby was issued[*despite Beneficiary’s tender of payment of confirmation fees and charges*].”

⁴ Timely confirmation. Confirmation may require time-consuming internal credit and country risk approvals and sanction clearance checks. Accordingly, unless confirmation has been pre-arranged, this period might be appropriately set at 30 calendar days. As a practical matter, the person nominated to confirm will require that the standby be issued before it is confirmed, and the issuer will charge fees for its exposure before as well as after the standby is confirmed.

The fact that a confirmation is or is not timely issued is an effective standby condition, whether or not the issuer receives a written notice thereof. It is not a non-documentary condition under ISP98 Rule 4.11(c)(ii) (Non-Documentary Terms or Conditions). In this regard, other ISP98

rules permit or require an issuer to treat a confirmer's operations affecting the standby as within the issuer's operations. See endnote 6 on ISP98 Rule 2.01(d)(iii) (Undertaking to Honour by Issuer and Any Confirmer to Beneficiary), which provides for an issuer's obligation for wrongful dishonor of a presentation made to the confirmer.

⁵ Automatic cancellation. This model form states that the standby is issued and, if not timely confirmed, then it is automatically cancelled. For the reasons indicated in the preceding endnote, it would not be practical to condition standby issuance on confirmation issuance. See ISP98 Rules 2.03 (Conditions to Issuance) and 2.06(a) (When an Amendment is Authorised and Binding).

⁶ Presentations to confirmer. ISP98 Rule 2.01(a) (Undertaking to Honour by Issuer and Any Confirmer to Beneficiary) obligates an issuer to honour a complying presentation made to the issuer. ISP98 Rule 3.04 (Where and to Whom Complying Presentation Made) provides for presentation to the issuer of a standby, whether or not confirmed. These rules are intended to maximize a beneficiary's rights against the issuer. However, these rules also maximize the burdens and risks of the issuer of a confirmed standby. In this regard, because most standbys require presentation of beneficiary prepared documents that have no intrinsic value and are easily duplicated, there are risks of duplicate presentation under standbys that permit presentation at more than one place. Accordingly, the effects of these rules are frequently and appropriately limited in the text of the standby. This form of standby expressly requires that all presentations be made to the confirmer.

An ISP98 standby that permits presentation to a confirmer thereby obligates the issuer to perform the confirmer's obligations if the confirmer wrongfully dishonours. This standby form, which permits presentation to the confirmer, expressly disclaims that obligation. See endnote 15.

⁷ No presentation to issuer. This form of standby expressly disclaims issuer responsibility for any attempted presentation by the beneficiary to the issuer, even if the standby is not confirmed. This disclaimer is consistent with treating the standby as cancelled if not confirmed and is included for the avoidance of doubt.

Endnotes 3 and 15 address the possibility of obligating the issuer directly to the beneficiary, where the standby is not confirmed and also in certain circumstances where the standby is confirmed.

⁸ Undertaking to honour/reimburse. The issuer's undertaking in this standby form includes rightful honour of the confirmation as an optional condition to payment under the standby. The wording in this clause is based on ISP98 Rules 8.01(a)(ii) (Right to Reimbursement) and 1.11(c)(1) (Interpretation of these Rules). Under those rules an issuer's obligation to reimburse a confirmer is treated like an applicant's obligation to reimburse an issuer. The issuer's undertaking in this standby form also includes conditions to payment under the standby based on the confirmer's forwarding the documents specified in the standby for examination under the ISP98 rules that apply to a presentation to an issuer, i.e., ISP98 Rules 4 (Examination) and 5

(Notice, Preclusion, and Disposition of Documents).

Although largely theoretical, there are differences between reimbursing a confirmer and honouring a confirmer's presentation. E.g., the letter of credit independence principle may be somewhat differently applied. A confirmer claiming reimbursement may be treated for some limited purposes as an agent of the issuer or as an agent of the beneficiary. Whether a confirmer rightfully honoured its confirmation may depend on the law where the confirmer acted and not on the law governing the standby issuer. Accordingly, the concerned parties may wish to include both or to exclude or disclaim one or another of these combined undertakings of the issuer to reimburse and to honour.

⁹ Confirmer's rightful honour. If a standby provides for paying a confirmer that rightfully honours its confirmation, without further conditions, then the standby issuer may wish to clarify with the applicant that the issuer is entitled to rely on the confirmer's claim of rightful honour. A standby may so provide simply by failing to disclaim a confirmer's ISP98 undertaking in ISP98 Rule 8.01(a)(ii) (Right to Reimbursement), which provides that rightful honour of a confirmation obligates the issuer to reimburse. (This ISP98 Form 7 standby includes additional conditions that limit the issuer's obligations to reimburse/honour, e.g., the forwarding of specified documents to the issuer.)

¹⁰ Expiration with automatic extension. If the standby is to provide for automatic extension of the expiration date or the like, then ISP98 Rule 2.07 (Routing of Amendments) and ISP98 Form 2 should be consulted (and the form of confirmation to be issued should be drafted to give the confirmer time to act in parallel with the issuer, e.g., to send an effective notice of non-extension of the confirmation.)

¹¹ Prompt forwarding. A confirmer may receive a presentation on the expiration date, thereafter examine the presentation and decide to honour, and thereafter forward the documents to the issuer. This form of standby and ISP98 leave to applicable standard practice determinations as to whether a particular forwarding is "prompt" or how long after the expiration date an issuer may expect a claim for reimbursement or actual receipt of forwarded documents. The applicable standard practice mentioned in ISP98 Rule 1.11(a) (Interpretation of these Rules) includes the practice of issuers and nominated banks under commercial letters of credit that provide that they are available at or expire at the counters of a nominated bank.

A standby may instead require that the documents be forwarded to, or received by, the issuer within a fixed time period. If so, the parties should consider the effect of automatic extension under ISP98 Rules 3.13 or 3.14 (CLOSURE ON EXPIRY DATE). In this regard, the beneficiary under this form of standby is expected to rely on the place of presentation and the expiration date stated in the confirmation, leaving the confirmer with any risks resulting from differences in those terms as between the confirmation and the standby.

¹² Issuer examination of documents. This optional text clarifies that reimbursement is subject to the issuer's examination of the forwarded documents under ISP98 Rules 4 (Examination) and 5

(Notice, Preclusion, and Disposition of Documents) to determine whether the confirmer is entitled to reimbursement under the terms and conditions of the standby, including ISP Rule 8 (Reimbursement Obligations). It is intended to avoid possible arguments over the application of ISP98 rules to claims from a confirmer for honour or reimbursement.

To simplify an issuer's response to a confirmer's claim for payment, the standby may add that the forwarded documents must be accompanied by the confirmer's statement that they were timely received and rightfully honoured by the confirmer under a confirmation issued by the confirmer as provided in the standby. See ISP98 Form 6 model counter standby, endnote 8 and related text.

¹³ Form of demand and statement. The requirements in a standby for demanding payment from the issuer should be repeated in the confirmation and supplemented by specific information as to the manner, time, and place of presentation to the confirmer. For additional and alternative model texts and forms of beneficiary payment demands and statements, see ISP98 Forms 1-4 and their endnotes.

¹⁴ Interest; advance payment. Because ISP98 does not provide for interest on late honour or reimbursement, any desired provision on issuer liability to pay interest, collection costs, or the like, should be added (or left to applicable law).

If the standby adds an undertaking to pay the confirmer in advance of the issuer's examination of forwarded documents, then it should restate the issuer's refund right under ISP98 Rule 8.03 (Refund of Reimbursement). If payment to the confirmer is to be made by the confirmer's claiming on another bank, then ISP98 Rule 8.04 (Bank-to-Bank Reimbursement) and the standard ICC rules to which it refers should be consulted.

¹⁵ Confirmer's wrongful dishonour. ISP98 Rule 2.01(d)(iii) (Undertaking to Honour by Issuer and Any Confirmer to Beneficiary) provides that "If the standby permits presentation to the confirmer, then the issuer undertakes also to honour upon the confirmer's wrongful dishonour by performing as if the presentation had been made to the issuer." This rule (like the similar rule obligating confirmers in case of wrongful dishonour by the issuer) is intended to maximize a beneficiary's rights against an issuer and any confirmer. However, these rules also maximize the burdens and risks of the issuer and confirmer by making both responsible for what the other does under their respective obligations to act with independence, promptness, and finality. This form of standby does not restate that type of undertaking and instead expressly disclaims that undertaking to the beneficiary, consistent with the other clauses in ISP98 Form 7 that limit the issuer's obligations to reimbursing the confirmer. This disclaimer covers confirmer dishonour, whether or not wrongful, so as to avoid argument over the scope of the term "wrongful dishonour" in ISP98 Rule 2.01(d)(iii). This disclaimer is consistent with the assumptions in this model form that the beneficiary relies on the confirmer's confirmation and not on the issuer's standby.

If, however, this disclaimer is not wanted, then the standby should restate the undertaking

described in ISP98 Rule 2.01(d)(iii), e.g.: “If Confirmer wrongfully dishonours a presentation made under its Confirmation, then Issuer undertakes to Beneficiary to honour this Standby by paying to Beneficiary the wrongfully dishonoured amount [against a presentation made to Confirmer on or before the expiration date that includes the above stated document(s)].” The bracketed text is intended to avoid argument based on the confirmer’s peculiar handling of the presentation to it, notably where the beneficiary’s claim of wrongful dishonour by the confirmer is based on confirmer preclusion rather than beneficiary compliance.

This model form and these endnotes do not include alternative wording for a standby that provides for the beneficiary, at its option, to make presentation on either the issuer or the confirmer or for a standby that provides for action against the confirmer only if the standby is wrongfully dishonoured by the issuer. As indicated in prior endnotes, a standby that provides the beneficiary with unlimited rights to present to either the issuer or the confirmer and then to enforce its claims against either or both is problematic for both. It may make both responsible based on facts and law known to, or peculiar to, one but not the other, e.g., closure of a place for presentation. These risks may be mitigated where the issuer and confirmer are affiliated or otherwise familiar with each other’s operations. One risk avoidance step may be to include in the standby (and a similar provision in any confirmation) that the issuer and confirmer may exchange information about the confirmed standby without further consent of or notice to the applicant or beneficiary, as well as that any payment made under either immediately reduces the amount available under both. In this regard, ISP98 Rule 4.11(c)(ii) (Non-Documentary Terms or Conditions) facilitates issuer reliance on communications about the standby sent or received by a confirmer.

¹⁶ Responsibility for confirmer charges. ISP98 Rule 8.02 (Charges for Fees and Costs) generally obligates an issuer to a nominated person (and the applicant to the issuer), to pay the customary charges of a confirmer or other nominated person that acts on the nomination, including those that the beneficiary fails to pay. This optional sentence in the standby allocates responsibility to the beneficiary and expressly disclaims any residual responsibility.

¹⁷ Communications. This optional clause (which was adapted from a similar optional clause in ISP98 Form 1) or a variation of it is particularly apt for a standby that provides for confirmation. For further clarification this clause may be expanded to state that the issuer and the person nominated to confirm should promptly advise each other of all communications affecting the standby (or confirmation) that are made between the beneficiary and either the issuer or the person nominated to confirm. See ISP98 Rules 2.05 (Advice of Standby or Amendment), 2.07 (Routing of Amendments, and 4.11 (Non-Documentary Terms and Conditions).

ISP98 Form 8

Model Confirmation of Standby*

[name and address of beneficiary as stated in standby]

[date of issuance]

Issuance. We **[name and address of confirmer at place of issuance]** (“Confirmer”) issue this irrevocable confirmation number **[reference number]** (“Confirmation”) in favour of **[name and address of beneficiary]** (“Beneficiary”) in the maximum aggregate amount of **[currency/amount]**. Confirmer is nominated to issue this Confirmation¹ under standby letter of credit number **[reference number]** (“Standby”) issued by **[name of standby issuer and its address at place of standby issuance]** (“Issuer”) on the application of **[name and address of applicant]** (“Applicant”).²

Undertaking. Confirmer undertakes to Beneficiary³ to pay Beneficiary’s demand for payment in the currency and for an amount available under this Confirmation that (i) identifies this Confirmation (by the name and address of the Confirmer and reference number for this Confirmation, as shown above) and identifies the Standby (by the name and address of the Issuer and of the Applicant and reference number for the Standby, as shown above), (ii) is presented to Confirmer at the following place for presentation to Confirmer: **[address of place for presentation]**, on or before the expiration date, (iii) is dated and signed by Beneficiary, and (iv) states that Applicant is obligated to pay to Beneficiary the amount demanded under the agreement between Beneficiary and Applicant titled **[agreement title]** and dated **[date]**.⁴

Expiration. The expiration date of this Confirmation is **[date]**.

Presentations only to Confirmer. Confirmer’s undertakings to Beneficiary are limited to presentations made to Confirmer under this Confirmation. Confirmer disclaims responsibility under ISP98 Rule 2.01 or otherwise for any presentation Beneficiary makes to Issuer.⁵

Effect of presentations to Issuer. All of Confirmer’s obligations under this Confirmation shall terminate automatically upon Beneficiary’s making a presentation to Issuer under the Standby unless such presentation is made (i) through Confirmer or otherwise with Confirmer’s express consent or (ii) to enforce a presentation wrongfully dishonoured by Confirmer.⁶

Confirmer’s fees. *[This Confirmation shall be automatically cancelled on **[date]** if Confirmer has not received before that date Beneficiary’s payment of Confirmer’s fees and charges for issuing this Confirmation, as follows: **[currency/amount]**, and either payment or satisfactory assurance of payment of Confirmer’s other fees and charges in connection with this Confirmation, as follows: **[description of other fees and charges]**.]⁷*

ISP98. This Confirmation is issued subject to the International Standby Practices 1998 (ISP98) (International Chamber of Commerce Publication No. 590).⁸

Communications. [*Communications to Confirmer about this Confirmation other than demands may be made by telephone, telefax, or SWIFT message, to the following: [numbers/addresses]. Beneficiary requests for amendment of this Confirmation, including amendment to reflect a change in Beneficiary's address, should be made to the Issuer's Applicant, who may then request issuance of the desired amendment of the Standby and this Confirmation.*]

[Confirmer's name]

[signature]

Authorized Signature

[Before the confirmation is issued, all text in **[bold]** should be completed and optional text in *[italics]* should be included or deleted (or redrafted).]

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This ISP98 Form 8 model confirmation is intended to be used to confirm an ISP98 Form 7 model standby. It is intended to be self-contained, rather than a short advice in which the confirmer adds its confirmation to a standby that is attached to or reproduced in the confirmer's advice. Like ISP98 Form 7, this form also assumes that the beneficiary intends to rely on and use the confirmation and not the standby.

This confirmation form is based on the ISP98 Form 1 standby, generally substituting "Confirmer" for "Issuer" and "Confirmation" for "Standby" and omitting most of the optional clauses. Like ISP98 Form 7, ISP98 Form 8 describes in the text what documents must be presented rather than attaching a form of demand.

The endnotes to this form include alternative and other optional terms of particular relevance to confirmations, as well as references to relevant ISP98 rules. See ISP98 Form 1, including endnotes, for explanation of wording that is common to ISP98 Forms 8 and 1 and for alternative and optional wording that may be adapted to a confirmation. See also ISP98 Form 7, including endnotes, for explanation of wording in this Form 8 that is determined by the text of the standby to be confirmed or that is common to both forms.

This form is published for educational purposes and not as legal or professional advice. Potential users should consult with their own advisers in the drafting or use of a standby letter of credit. ISP98 and letter of credit educational and training materials, including *The Official Commentary on the International Standby Practices* containing official interpretations of ISP98, are available from IIBLP at www.iiblp.org.

¹ Nomination. ISP98 Rule 1.09 (Defined Terms) defines “confirmer” as one who adds its confirmation on the nomination of the issuer. A nomination to confirm should be stated in the Standby and, preferably, referenced in the Confirmation so as to clarify in both undertakings the Confirmer’s status as a confirmer. This confirmation form, including these endnotes, do not address issues that may arise where a purported confirmer (sometimes referred to as a “silent confirmer”) has not been nominated in the standby to add its confirmation.

² Identification of Standby. A confirmation should state the confirmer’s separate reference number for the confirmation and also state the reference number and other identifying information for the standby, including identification of the applicant for the standby. In this regard, ISP98 Rule 1.11(c)(i) (Interpretation of these Rules) treats the standby issuer as the confirmer’s applicant.

³ Confirmer’s undertaking. A confirmer is a person that is nominated by the issuer of a standby to add its confirmation and that does so by undertaking to honour a complying presentation. See ISP98 Rules 1.09(a) (Definitions), 1.11(c) (Interpretation of these Rules), and 2.01(d) (Undertaking to Honour by Issuer and Any Confirmer to Beneficiary).

A confirmation may incorporate, rather than restate, the terms and conditions of the issuer’s obligations under the standby to which the confirmer has added its confirmation. This model form of confirmation (ISP98 Form 8) restates all of the terms and conditions affecting the confirmer’s obligations to the beneficiary. Restatement is common for confirmations of standbys in favor of beneficiaries that insist on confirmation to satisfy requirements for an approved local bank obligor. This model form of confirmation should qualify as a letter of credit undertaking of the confirmer under ISP98 (and likely also under applicable law) whether or not the standby issuer authorized issuance of the confirmation.

⁴ Form of demand and statement. The requirements for demanding payment under a confirmation should follow the requirements of the standby, supplemented by specific information as to the manner, time, and place of presentation to the confirmer. For additional and alternative model texts and forms of beneficiary demands and statements, see ISP98 Forms 1-4 and their endnotes.

⁵ Confirmer not responsible for presentations to issuer. ISP98 Rule 2.01(d) (Undertaking to Honour by Issuer and Any Confirmer to Beneficiary) provides that if a confirmation permits presentation to the Issuer, then the confirmer is responsible for the issuer’s wrongful dishonour. This rule is intended to maximize a beneficiary’s rights against a confirmer. This model confirmation overrides that rule on the assumption that the typical beneficiary intends to use the confirmation and not the standby and is willing to rely solely on the confirmer. Similarly, the typical confirmer will prefer to rely solely on its own processing of demands and is unwilling to accept the added uncertainty and risk of remedying the issuer’s possible wrongful dishonour of a presentation made directly to the issuer.

⁶ Prohibition on circumventing the confirmer. If the required documents consist of a demand and statement prepared and signed solely by the beneficiary, then the beneficiary may easily make multiple contemporaneous presentations. If a beneficiary is permitted to present to the issuer in either the standby or the confirmation, then the confirmer receiving a demand will want to satisfy itself that neither it nor the issuer has received a conflicting demand or other communication from the beneficiary. This involves risk and delay, which the confirmer may refuse to accept. This model confirmation form includes wording intended to deter presentation other than to the confirmer by providing for a forfeiture of the beneficiary's rights against the confirmer. The possibility of presentation on either the confirmer or the issuer affects not just the wording of the confirmation but also the wording of the standby. If a confirmation provides for transfer of drawing rights or other discretionary or automatic amendment of its terms, then even greater attention must be paid to prohibiting or limiting beneficiary requests or demands for action by the standby issuer that might affect the confirmer.

⁷ Confirmer's charges. This optional clause assumes that the issuer is not responsible for confirmer charges (see the ISP98 Form 7 model standby optional disclaimer of responsibility for confirmer charges) and that the confirmer has not obtained payment or satisfactory assurances of payment from the beneficiary before issuing its confirmation. If the effect of non-payment is to be non-issuance of the confirmation rather than automatic cancellation, then this confirmation should be differently worded in light of ISP98 Rule 2.03 (Conditions to Issuance).

⁸ Applicable practice rules, law, court, arbitration, and sanctions. A confirmation is an independent undertaking. Questions as to where, how, and under what practice rules and law a confirmation may be enforced should be dictated by the confirmation and not by the standby it confirms. A confirmation may be issued subject to ISP98, even though the standby states that it is issued subject to different practice rules or no rules.

A confirmer may desire clarity that its confirmation is subject to the law of the place where its confirmation is issued (or where presentation to the confirmer must be made), and the beneficiary may also want clarity that the confirmer cannot defend dishonour of its confirmation on the basis of the law applicable to the issuer. In this regard, beneficiaries obtain confirmations to avoid the country risk as well as credit risk associated with the issuer. If the standby includes a choice of law or court or arbitration clause or a sanctions clause, particular attention should be given to the possible effect or lack of effect of each such clause on the confirmer's obligations. See ISP98 Form 1, endnote 19.

[IIBLP as of 7 June 2013]

This ISP98 Form 11.1 Model Government Standby Form is for federal, state, and local governments in the United States to use in updating and improving their required or permitted forms of standby letters of credit that support underlying obligations to the government.

ISP98 Form 11.1 [U.S.] Model Government Standby Form*

[Before a standby is issued, all text in **[bold]** in any annex as well as in the body of the standby should be completed as indicated, and optional text in *[italics]* should be included or deleted (or redrafted). Text in [ALL CAPITALS UNDERLINED] should be completed as indicated when the beneficiary prepares a demand for presentation.]

Standby Letter of Credit

[name and address of beneficiary]¹

[date of issuance]

Issuance. At the request and for the account of **[name and address of applicant]**² (“Applicant”), we **[name and address of issuer at place of issuance]**³ (“Issuer”) issue this irrevocable⁴ independent⁵ standby letter of credit number **[reference number]** (“Standby”) in favor of **[name and address of beneficiary]** (“Beneficiary”) in the maximum aggregate amount of USD **[amount]**.⁶

Undertaking. Issuer undertakes to Beneficiary to pay Beneficiary’s demand for payment for an amount available⁷ under this Standby and in the form of Annex A (Payment Demand)⁸ [*or Annex B (Payment Demand after Notice of Non-extension)*]⁹ completed as indicated¹⁰ and presented¹¹ to Issuer at the following place for presentation: **[address of place for presentation]**,¹² at or before the close of business¹³ on the expiration date.¹⁴

Overdrawing. If a demand exceeds the amount available, but the presentation otherwise complies, Issuer undertakes to pay the amount available.¹⁵

Expiration. The expiration date of this Standby is **[specific calendar date, e.g., the date one year after issuance date]**.¹⁶

Automatic Extension. The expiration date of this Standby shall be automatically extended¹⁷ for successive one-year periods, unless **[30]**¹⁸ or more calendar days before the then current expiration date Issuer gives written notice to Beneficiary that Issuer elects¹⁹ not to extend the expiration date. Issuer’s written notice must be sent²⁰ [*by registered, certified, or priority express mail or nationally recognized overnight courier*] to Beneficiary’s above-stated address [*and to the attention of [office, officer, or other attention party] or, alternatively, be received by*

Beneficiary's attention party] **[30]** or more calendar days before the then current expiration date. The expiration date is not subject to automatic extension beyond **[specific calendar date, e.g., the date five years after issuance date]**, and any pending automatic one-year extension shall be ineffective beyond that date.²¹

Payment. Payment against a complying presentation shall be made within three business days after presentation²² at the place for presentation or by wire transfer to a duly requested account of Beneficiary.²³

ISP98. This Standby is issued subject to the International Standby Practices 1998 (ISP98) (International Chamber of Commerce Publication No. 590).²⁴

Issuer's Charges and Fees. Issuer's charges and fees for issuing, amending, or honoring this Standby are for Applicant's account and shall not be deducted from any payment Issuer makes under this Standby. *[Issuer undertakes to Beneficiary to pay the charges and fees of any bank nominated in this Standby to advise [and confirm] this Standby for acting on such nomination.]*²⁵

*[Communications. Communications other than demands may be made to Issuer in the manner and at the place for presentation and also as follows: [addresses for mailed, couriered, telephone, telefax, or electronic communications]. Communications other than for notices of non-extension may be made to Beneficiary at Beneficiary's above-stated address and also as follows: [addresses for mailed, couriered, telephone, telefax, or electronic communications].]*²⁶

[Issuer's name]

[signature]

Authorized Signature

Annex A: Payment Demand

[INSERT DATE]²⁷

[name and address of Issuer or other addressee at place of presentation as stated in standby]

Re: Standby Letter of Credit No. **[reference number]**, dated **[date]**, issued by **[Issuer's name]** ("Standby").²⁸

The undersigned Beneficiary demands payment of USD **[INSERT AMOUNT]** under the Standby.

Beneficiary states²⁹ that Applicant³⁰ is obligated³¹ to pay to Beneficiary the amount demanded as provided in **[the contract, regulation, or other document that identifies the underlying obligations to the government beneficiary]**.³²

Beneficiary requests that payment be made by wire transfer to an account of Beneficiary as follows: [INSERT NAME, ADDRESS, AND ROUTING NUMBER OF BENEFICIARY'S BANK, AND NAME AND NUMBER OF BENEFICIARY'S ACCOUNT].³³

[Beneficiary's name and address]³⁴

By its authorized officer:

[INSERT ORIGINAL SIGNATURE]³⁵
[INSERT TYPED/PRINTED NAME AND TITLE]

[Annex B: Payment Demand after Notice of Non-extension³⁶

[INSERT DATE]

[name and address of Issuer or other addressee at place of presentation as stated in standby]

Re: Standby Letter of Credit No. [reference number], dated [date], issued by [Issuer's name] ("Standby").

The undersigned Beneficiary demands payment of USD [INSERT AMOUNT] under the Standby.

Beneficiary states that the Standby is set to expire fewer than [30] days from the date hereof because Issuer has given a notice of non-extension of the Standby[, no retraction of the non-extension notice or satisfactory replacement standby has been timely received,]³⁷ and the amount demanded is required to secure the obligations of Applicant as provided in [the contract, regulation or other document that identifies the underlying obligations to the government beneficiary].

Beneficiary requests that payment be made by wire transfer to an account of Beneficiary as follows: [INSERT NAME, ADDRESS, AND ROUTING NUMBER OF BENEFICIARY'S BANK, AND NAME AND NUMBER OF BENEFICIARY'S ACCOUNT].

[Beneficiary's name and address]

By its authorized officer:

[INSERT ORIGINAL SIGNATURE]
[INSERT TYPED/PRINTED NAME AND TITLE]]]

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General Comments on ISP98 Form 11.1

Many government agencies require or permit standby letters of credit to be issued in their favor to support a variety of underlying obligations. Many do so under statutes, regulations, contracts, or guidelines that indicate who may issue a standby in favor of the government and what the standby should provide, typically by requiring that the standby be substantially in the form of a standby text set out in the government's regulation or contract. The general comments and endnotes to this ISP98 Form 11.1 refer to such standbys as a "government standby" and to such sources of government standby requirements as a government "regulation" or "contract".

Government regulations and contracts typically require that a standby be either issued or confirmed by a bank acceptable to the government and include the required form of standby and confirmation. Confirmation is a parallel independent undertaking to honor. The IIBLP intends to develop a model government confirmation form based on the acceptability to the government beneficiary of the confirmer (rather than the acceptability of the standby issuer). The IIBLP also intends to develop a model text for use in a government regulation, contract, or cover letter to applicants providing for an acceptable standby or confirmation in favor of the government.

This ISP98 Form 11.1, including its extensive endnotes, is intended to help a government beneficiary develop new standby forms or improve and update existing forms and to incorporate those forms into regulations and underlying contracts. This form should promote clarity and efficiency for all concerned and be reasonably acceptable to applicants and issuers, as well as protect the interests of government beneficiaries. The endnotes explain the text of the form and provide alternative and additional standby wording. They also explain why some wording commonly found in standbys has been omitted as unnecessary or undesirable.

This form incorporates ISP98, the only practice rules developed specifically for standby letters of credit. ISP98 was produced by an Institute of International Banking Law and Practice ("IIBLP") working group, endorsed and published by the International Chamber of Commerce ("ICC") as ICC Publication No. 590, and also endorsed by the United Nations Commission on International Trade Law. See http://www.uncitral.org/pdf/english/texts_endorsed/ISP98_e.pdf. This form is based on ISP98 Forms 1 (Model Standby Incorporating Annexed Form of Payment Demand with Statement) and 2 (Model Standby Providing for Extension and Incorporating Annexed Form of Payment Demand with Alternative Non-Extension Statement), the first two of many standby forms that are now freely available on the IIBLP website at <http://www.iiblp.org> under ISP Forms. This ISP98 Form 11.1 focuses on drafting issues that are of particular interest to government beneficiaries and to issuers and applicants for government standbys.

This form includes terms that ISP98 indicates should be included in a standby, and it restates other ISP98 rules for the avoidance of doubt, e.g., it recites that the standby is irrevocable and independent. It focuses on standbys that are issued from the United States and therefore governed by the applicable state version of the Uniform Commercial Code, Article 5—Letters of Credit ("UCC Article 5" or " UCC § 5-101" et seq)³⁸ and affected by applicable bank regulations such as the Office of the Comptroller of the Currency ("OCC") regulation 12 C.F.R. § 7.1016 (Independent undertakings to pay against documents).³⁹ See *LC Rules & Laws: Critical Texts* (IIBLP), which reproduces 12 C.F.R. § 7.1016, as well as UCC Article 5 and the Official Comments to it (with a listing of the dates of each state's enactment and of significant state variations) and ISP98 and certain ISP98 Forms.

This form is intended to be self-contained, and, absent special circumstances, useable without extended reference to the text of ISP98 or to other ISP98 Forms or their endnotes or to UCC Article 5. This form incorporates annexed forms of payment demand which provide maximum clarity as to what the beneficiary must present to the issuer in order to obtain payment under the standby. It assumes that a government beneficiary starting with this form as a model will redraft this form before approving it for general use and that its approved form will allow for some variation as well as insertion of details when a particular standby is issued.

This form is intended to satisfy requirements in U.S. banking regulations as well as letter of credit law and practice as to what constitutes an "independent" undertaking. It also takes into account the OCC's safety and soundness considerations in 12 C.F.R. § 7.1016(b)(3) that an issuing bank "should possess operational expertise that is commensurate with the sophistication of its independent undertaking activities." In light of the differences in standby expertise among bank issuers and the likelihood that regulation of standbys will continue to evolve, this form has been developed to permit government agencies as beneficiaries to allow for standbys to be issued by credit-worthy banks that may lack the experienced operations' capabilities of the major bank letter of credit issuers.

Because many government standbys support underlying obligations that are expected to run for more than one year, this form includes standby text providing for automatic one-year extensions. The duration, as well as amount, of bank exposure under a standby providing for automatic extensions raises bank safety and soundness issues, and therefore the extent of operations' expertise required of any particular bank. Uncertainty as to the duration of a standby is one of several safety and soundness concerns with many existing government standby forms. Another such concern is with non-documentary conditions, which undercut the independence of a standby and introduce uncertainty in the interpretation of its requirements. See endnote 5 (Independence) on standby text recognizing, e.g., a beneficiary's "assigns" without specifying the documents to be presented to evidence the status of a claimed assignee.

Although this form is for use with ISP98 in the United States under UCC Article 5, it could be readily adapted for other uses, e.g., as a model ISP98 government standby or demand guarantee form for use in other countries. See endnote 24 (Incorporation of ISP98; optional choice of law and forum).

This ISP98 Form 11.1 is published for educational purposes and not as legal or professional advice. Potential users should consult with their own advisers in the drafting or use of a standby letter of credit. ISP98 and letter of credit educational and training materials, including *The Official Commentary on the International Standby Practices* containing official interpretations of ISP98 and *LC Rules & Laws: Critical Texts*, are available from IIBLP at www.iiblp.org.

[IIBLP as of 5 November 2014]

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¹ Name and address of beneficiary. This ISP98 Form 11.1 assumes that the beneficiary will be a government entity using its legal name. The beneficiary's address should include a street address and the name or title of the person or department to whose attention the standby is directed (attention party). These details will facilitate written communications to be made through a courier as well as mail. A post office box number or other artificial address will not suffice. See endnotes 20 (Send or receive) and 26 (Communications).

Naming more than one beneficiary is unusual (except where the beneficiaries are joint obligees of the applicant) and requires beneficiary, applicant, and issuer attention to the allocation of beneficiary rights to draw, to consent to amendment or cancellation of the standby, and to request acknowledgement of a requested transfer or assignment of proceeds.

If a government beneficiary undergoes a name change, with or without reorganization, then UCC § 5-113 (Transfer by Operation of Law) entitles the legal successor to draw either in its own name or in the name of the predecessor government beneficiary. ISP98 Rules 6.11—6.14 (Transfer by Operation of Law) facilitate both types of drawing.

The ability of an entity other than the named beneficiary or its legal successor to draw depends on ISP98 Rules 6.01 – 6.05 (Transfer of Drawing Rights) and UCC § 5-112 (Transfer of Letter of Credit). Unless expressly permitted in the standby, these provisions prohibit transfers of drawing rights. They do so for the protection of named beneficiaries as well as applicants and issuers. See ISP98 Form 4 (Model Standby Providing for Transfer and Incorporating Annexed Form of Transfer Demand) endnotes 1-3 on the special treatment of transferees at the time of standby issuance and of any attempted transfer by the beneficiary or attempted drawing by a claimed transferee.

If the beneficiary requests the issuer to pay to a third party part or all of any honored presentation, then that request is for an assignment of proceeds rather than a transfer of drawing rights. Assignments of letter of credit proceeds are governed by ISP98 Rules 6.06—6.10 (Acknowledgement of Assignment of Proceeds) and UCC § 5-114 (Assignment of Proceeds). (They are also subject to secured transactions laws.) They are less exceptional than transfers of drawing rights. See ISP98 Form 4 endnote 1 on the differences between transfers and assignments under the special laws and practices applicable to letters of credit.

Assignments of proceeds require some individualized treatment either at the time of issuance or, more typically, at the time of a request for acknowledgement of an attempted assignment of proceeds to a named assignee. An issuer's acknowledgement may be provided in a separate acknowledgement form that protects the issuer against any additional risks associated with paying someone other than the named beneficiary. Many issuers regularly acknowledge assignments of proceeds on standard assignment forms with standard screening of the proposed assignee and for a modest fee. Endnotes 23 (Place and method of payment) and 33 (Request for wire transfer to beneficiary's account) include optional standby text that would acknowledge an assignment of proceeds made by the beneficiary's presentation of a complying demand that included a request to pay proceeds to an identified account of an identified third party.

A standby that undertakes to pay the named beneficiary's "successors" or "assigns", without more, does not add to the rights of the named beneficiary or its claimed legal successors, transferees, or assignees of proceeds or otherwise circumvent the limitations imposed under ISP98 and UCC Article 5. Only a legal successor covered by UCC § 5-113 (Transfer by

Operation of Law) and ISP98 Rules 6.11—6.14 (Transfer by Operation of Law) would be protected (with or without a reference to successors or assigns in the standby). Any other type of claimed successor, transferee, or assignee would need the issuer's acknowledgement of its claimed status.

Similarly, a standby that engages with "drawers, endorsers, and bona fide holders" would be using an outmoded form of nominating other banks to negotiate complying drafts under a UCP commercial letter of credit (see Official Comment 7 to UCC § 5-102). It would not satisfy ISP98 requirements for nomination or excuse a claimed bona fide holder from having to obtain the issuer's acknowledgement of its status. See endnote 5 (Independence) on the separate need to satisfy ISP98 Rule 4.11 (Non-Documentary Terms or Conditions) as applied to a term like "bona fide holder".

² Applicant. The applicant named in a standby is typically the person whose underlying obligations to the government beneficiary are supported by the standby. See endnote 30 ("Applicant" as underlying obligor). For issues that may arise where the applicant is not the underlying obligor or where there are multiple applicants, see ISP98 Form 1 endnotes 1 and 30.

³ Date and place of issuance. Standbys commonly recite the issuance date and the place of issuance) at the top of the undertaking or in the first paragraph of the text (or both).

The indicated place of issuance is significant in determining what law governs the issuer's obligations. Absent an indication of the place of issuance in the standby, it may prove difficult to determine a single place of issuance, even with full knowledge of the process resulting in sending the standby to the beneficiary. See endnote 12 (Place of presentation), which may differ from the place of issuance.

⁴ Irrevocability. It is unnecessary to state that an ISP98 standby is irrevocable. See ISP98 Rule 1.06(a) and (b) (Nature of Standbys) and UCC § 5-106(a) (Issuance, Amendment, Cancellation, and Duration). This ISP98 Form 11.1 includes the word "irrevocable" for comfort.

⁵ Independence. It is unnecessary to state that an ISP98 standby issued in the U.S. is independent. The obligation of the issuer to honor a complying presentation is independent from the applicant-beneficiary and applicant-issuer relationships as a matter of law, as well as practice rule. See ISP98 Rules 1.06(c) (Nature of Standbys) and 1.07 (Independence of the Issuer-Beneficiary Relationship) and UCC § 5-103(d) (Scope). This central feature of a letter of credit distinguishes it from ordinary guarantees and suretyship promises. This ISP98 Form 11.1 includes the word "independent" for comfort.

ISP98 Rule 4.11 (Non-Documentary Terms or Conditions), like UCC § 5-108(g) (Issuer's Rights and Obligations), provides that non-documentary conditions in a standby must be disregarded. This rule is intended to protect the independence of an undertaking issued subject to ISP98 (or UCC Article 5). Common examples of non-documentary conditions include standby provisions

that payment or termination of the underlying obligation will reduce or accelerate expiration or otherwise affect the standby issuer's obligations. They tend to mislead applicants who do not appreciate that the issuer must ignore them. Similarly, rights under a standby extended to "bona fide holders of complying drafts" or to "assigns" of the named beneficiary are unenforceable unless the standby clarifies whether nomination, transfer of drawing rights, or assignment of proceeds is intended and then also how such intended rights may be invoked by the presentation of documents that are specified in the standby text or ISP98 Rule 6 (Transfer, Assignment, & Transfer by Operation of Law). Some government standby forms run undue risks under the "non-documentary conditions must be disregarded" rule. This ISP98 Form 11.1 does not.

It is undesirable to state that a standby is "unconditional", "primary", or "absolute". See ISP98 Rule 1.10(a) (Redundant or Otherwise Undesirable Terms). A standby is by legal and practice rule definition a conditional undertaking, conditioned on the timely presentation of complying documents. As such, its undertaking to pay is not "unconditional" or "absolute" when issued (although it may become such after a complying presentation is made). The term "primary" has no meaning in letter of credit law or practice and confuses letters of credit with suretyship undertakings.

It is unnecessary to include any so-called integration or merger clause (e.g., "This letter of credit sets forth in full issuer's undertaking, and such undertaking shall not in any way be modified, amplified or amended by reference to any document, instrument, agreement or note referred to herein and any such reference shall not be deemed to be incorporated herein by reference to any such document, instrument, agreement or note."). No such recital can usefully supplement any standby subject to ISP98 (or governed by UCC Article 5). Such clauses should be avoided because they might detract from the more authoritative and better worded statements of standby independence in ISP98 Rules 1.06(c) (Nature of Standbys) and 1.07 (Independence of the Issuer-Beneficiary Relationship) and UCC § 5-103(d) (Scope). Such clauses should also be avoided because they invite application of contract law principles relevant to a bargain between the issuer and beneficiary, rather than letter of credit law principles relevant to an independent undertaking of the issuer. See ISP98 Form 5 (Simplified Demand Only Standby) endnote 1.

Similarly, it is unnecessary for a standby to recite that payment under it will be made from the issuer's own funds. The independence of the issuer's obligation as a matter of law assures that the issuer's payment discharges the issuer's obligation without regard to the effect of that payment on the applicant's underlying obligations. An "own funds" recital does not and cannot protect a beneficiary against claims from an applicant (or a bankrupt applicant's representative) based on the underlying applicant-beneficiary relationship.

⁶ Nomination. This ISP98 Form 11.1 does not include a request that it be advised to the government beneficiary through another bank. Advice signifies that the advisor has checked the apparent authenticity of the standby and accurately advised what it has received. See ISP98 Rule 2.05 (Advice of Standby or Amendment) and UCC § 5-107(c) (Confirmor, Nominated Person, and Adviser). Use of an advising bank is a simple and inexpensive way to reduce the

beneficiary's risk of relying on a forged standby. (The terms "advisor", "adviser", and "advising bank" are used interchangeably to refer to these limited functions, and use of the term "bank" recognizes that nomination is almost invariably of a bank and not of any limitation on non-banks acting under ISP98.)

This form could provide for advice by addressing the standby to the advisor and adding a new second paragraph, e.g.: "Advisor: **[name and address(es) of beneficiary's bank]** is requested to advise Beneficiary of the issuance of this Standby. Issuer undertakes to route any amendment, notice of non-extension, or other communication affecting this Standby through Advisor to advise Beneficiary thereof [and to receive communications from Advisor as authentic communications from the indicated officer or other representative of Beneficiary]."

A government beneficiary may wish to consider requiring that one or more banks chosen by it be nominated in substantially all standbys issued in its favor to advise them. This step would provide a valuable check of the authenticity of the standby and might facilitate record keeping for the government on issuances, amendments, notices of non-extension, etc., as well as timely presentation of the government beneficiary's demands. See endnote 6 (Nomination).

The suggested text above could be expanded to provide for presentation to the issuer by authenticated SWIFT inter-bank message quoting the beneficiary's demand rather than by courier delivery of the beneficiary's originally signed demand.

Nomination of another bank in a standby could be expanded to provide for confirmation (see the General Comments) or to authorize giving value against a complying presentation, which is beyond the scope of this ISP98 Form 11.1. As stated in ISP98 Rule 2.04 (Nomination), nominated banks are not bound by the issuer's nomination or authorized to bind the issuer, nor are they governed by the same laws. See endnotes 24 (Incorporation of ISP98; optional choice of law and forum) and 25 (Charges and fees for issuance, advice, and confirmation).

⁷ Amount available. ISP98 Rule 3.08 (Partial Drawings & Multiple Presentations; Amount of Drawings) permits presentations for less than the amount available under a standby. See ISP98 Form 3 (Model Standby Providing for Reduction and Incorporating Annexed Form of Reduction Demand) on the possibility of reducing the amount available other than by honoring a payment demand.

It is unnecessary to state in a standby, or in a demand form, that the amount demanded must be, or is, available under the standby. The amount available is determinable without dependence on any such statement. See endnote 15 (Overdrawing).

⁸ Annexed form of payment demand. ISP98 Rule 4.08 (Demand Document Implied) requires presentation of a documentary demand for payment. Each requirement for the presentation of a document should appear in the standby text specifying the document(s) to be presented and not merely as a recital in an annexed form of demand or required beneficiary statement.

This ISP98 Form 11.1 does not require presentation of a "draft" but instead requires a demand. Requiring a draft, whether or not as the only document to be presented, is neither necessary nor efficient under a standby that undertakes to pay at sight. (ISP98 Rule 4.16(c) (Demand for Payment) provides that a "draft" need not be in negotiable form.)

This ISP98 Form 11.1 incorporates an annexed model form of payment demand to be completed and presented by the beneficiary. Annexing the desired form of payment demand (with any desired beneficiary statement) is not required by ISP98 but promotes the efficient use of standbys. Annex A satisfies the requirements of ISP98 Rule 4.16 (Demand for Payment), so that, when the government beneficiary completes the annexed form as indicated, it will include a demand for payment of a stated amount under an identified standby, be properly addressed, dated, and signed, and contain any required beneficiary statement.

While not optimal, Annex A could be deleted as a self-contained demand form and merged into the body of the standby with additional wording that would require that the demand be presented to the issuer's indicated address, mention the standby reference number, be dated and signed by the beneficiary, and include the beneficiary statements that are now included in Annex A. A statement included in blocked wording or quotation marks in the body of a standby, like a statement included in an attached form such as Annex A, would be covered by ISP98 Rule 4.09(b) (Identical Wording & Quotation Marks). See endnote 29 (Beneficiary statements) on the ISP98 standards for determining whether a beneficiary statement complies with the requirements of the standby.

Annex A includes a beneficiary statement that the applicant is obligated to pay the amount demanded as provided in an identified underlying contract, without further indicating the source or nature of the underlying payment obligations.

The underlying contract should be identified in Annex A when the standby is issued. While some standbys call for a draft only or for a payment demand that does not identify the underlying obligations intended to be supported by the standby, increasing concern regarding anti-money laundering has caused banks to press for the inclusion of such information. In this regard, government beneficiaries should set an example in their forms. Separately, there is the chance of dispute as to which particular underlying obligations are or are not to be satisfied or secured by any particular drawing under a particular standby. UCC §§ 5-110 (Warranties) and 5-117 (Subrogation of Issuer, Applicant, and Nominated Person) provide post-honor warranty and subrogation rights and remedies, which, together with the law applicable to the government beneficiary's relationship with the applicant, allow for an extended inquiry into the intentions of the parties regarding whether a payment received under a standby should be returned or differently applied.

Assuming that the applicable regulation or contract requires that the applicant provide and maintain acceptable standby support, it should also require that the imminent failure to maintain

acceptable standby support will require timely payment either to satisfy or secure the underlying payment obligations supported by the standby. The beneficiary may then make the statement required in the Annex A form of payment demand, whether the problem is that the standby is set to expire too soon or the issuer or confirmer ceases to be acceptable to the government beneficiary.

The standards by which bank acceptability (notably creditworthiness) are to be measured are best addressed in the government's underlying contract or regulation. Attempting to address bank acceptability in the text of the standby or confirmation is problematic and is resisted by many banks.

⁹ Annexed form of payment demand after notice of non-extension. Optional Annex B should be included if the standby provides for automatic extension and if the applicable government regulation or contract does not provide any basis for using Annex A to demand payment because the issuer has given a notice of non-extension. It is simpler and more efficient to provide in the applicable regulation or contract that any failure to maintain a sufficient standby entitles the government to payment before the standby terminates either by acceleration of the underlying obligations or by triggering an underlying obligation to cash collateralize any underlying payment obligations that are still contingent or unmatured. Following this approach in the underlying documentation would make it unnecessary to include an Annex B (or to add to Annex A an alternative beneficiary statement in lieu of a separate Annex B).

¹⁰ Annexes to be completed as indicated. The phrase “completed as indicated” assumes that the annexed form of demand adequately indicates how the beneficiary is to complete it before presenting it. This form includes instructions to complete text in **[bold]** before issuance and instructions for the beneficiary to complete text in [ALL CAPITALS UNDERLINED] before presentation.

Consistent with ISP98 Rule 4.16 (Demand for Payment), the annexed forms of demand require dating and signing. Neither the standby text nor any annexed demand form purports to permit “purported” signatures, an adjective which obscures the allocation of risks for forged demands under UCC § 5-108(i)(5) (Issuer’s Rights and Obligations) to the possible disadvantage of the true beneficiary. See ISP98 Form 1 endnote 10.

¹¹ Manner of presentation. This ISP98 Form 11.1 provides for presentation by delivery of documents in a paper form, commonly by courier, as does ISP98 Rule 3.06 (Complying Medium of Presentation) with the exception of a standby to a beneficiary that is a SWIFT participant and that requires only a demand, an exception not typically applicable to a government beneficiary.

Presentation by telefax is commonly expressly permitted in standbys as an alternative to physical presentation of original paper documents. With telefax presentation a scan of a paper document is transmitted to a specified telephone number that is accessible and, preferably, controlled by standby operations' personnel. Whether and how standby issuers may permit telefax presentation

varies considerably. Express provision in the standby for such presentations is required, but there is no standard text. The following may be considered as a starting point for the development of standby text permitting presentation by telefax: "Presentation of any demand under this Standby may also be made by telefax sent from **[Beneficiary's telephone number(s)]** to **[Issuer's telephone number(s)]** with a cover sheet marked 'URGENT. FAX PRESENTATION UNDER STANDBY LETTER OF CREDIT **[REFERENCE NO.]**', and the document(s) received and printed out by Issuer shall be deemed to be original under ISP98 Rule 4.15 (Original, Copy, and Multiple Documents). Beneficiary is requested to telephone Issuer at **[telephone number(s)]** and to identify this Standby and Beneficiary's presentation being telefaxed that same business day, as a courtesy and not as a condition limiting Issuer's obligations." Some standbys add wording on the disposition of any original paper documents, e.g., requesting that they also be presented to the issuer as a courtesy or disclaiming responsibility for examining them whether received before or after an honored fax presentation.

Electronic presentation, e.g., by message with pdf attachment to an issuer's e-mail address, is not common. Many issuers do not permit this manner of presentation. Those that do, do so in limited circumstances and on their own individualized terms. ISP98 rules would facilitate the drafting of an issuer's individualized clause permitting electronic presentation. See ISP98 Rule 1.09(c) (Defined Terms ("Electronic Record", "Authenticate", "Electronic Signature", and "Receipt")).

¹² Place of presentation. ISP98 Rule 3.01 (Complying Presentation under a Standby) provides that a standby should indicate the place, the location within that place, and the person to whom presentation should be made. ISP98 Rule 3.04 (Where and to Whom Complying Presentation Made) provides default rules. The indicated place of presentation is significant in determining whether a complying demand is timely presented.

This ISP98 Form 11.1 provides for presentation to the issuer at a specified place, which might be an operations' office of the issuer with a name or address that differs from the name or address given for the issuer at the place of issuance or as the location of the particular branch of the bank that issued the standby. Many issuers limit presentation to one place or only a few places where they maintain standby operations, and in some cases those operations' centers are bank affiliates that specialize in letter of credit operations.

Bank security measures typically do not permit attempted presentation by in-person delivery to a bank's standby operations' personnel. Standbys typically require that any presentation be addressed to a street address and to the attention of the Standby Letter of Credit Department or the like. These requirements are intended to accommodate presentation of paper documents by mail or courier and to facilitate internal routing of incoming mailed or couriered packages from a mail room at the stated street address to standby operations' personnel. Providing for presentation "at the counters" of the issuer is as outmoded as it is imprecise.

This ISP98 Form 11.1 does not provide for the possibility of presenting at an alternative address of the issuer or of any nominated bank.

¹³ Presentation during business hours. ISP98 Rule 3.05 (When Timely Presentation Made) provides that presentation must be made before expiry on the expiration date and that a presentation after business hours is treated as made the next business day. Although Rule 9.04 (Time of Day of Expiration) provides that expiry occurs at the close of business at the place of presentation, this phrase is included in this ISP98 Form 11.1 for the avoidance of doubt.

¹⁴ Presentation of the original standby not required. An issuer's obligation is not dependent on the beneficiary's holding or presenting the "original" standby, unless the standby so provides. See ISP98 Rule 2.03 (Conditions to Issuance). This ISP98 Form 11.1, like most standbys, does not require presentation of the standby with a payment demand. Any such requirement exposes the government beneficiary to the unnecessary risk that a demand may be rightfully refused if the standby is lost or otherwise cannot be timely presented. It also exposes the issuer to disputes over the issuer's receipt, handling, or return of the standby. The typical justification for such a requirement is to deter forged demands, but there are other better ways to deter forged demands, e.g., by providing in the standby that payment must be made to a specified bank for credit to a specified government beneficiary's account. See ISP98 Form 1 endnote 9.

If despite this recommendation the standby text is redrafted to require presentation of the standby (e.g., by adding: "and accompanied by the original standby"), then any annexed demand form should add corresponding text. In that event, consideration should also be given to adding a provision in the standby text requiring the reasonable exercise of issuer discretion under ISP98 Rule 3.12 (Original Standby Lost, Stolen, Mutilated, or Destroyed), e.g.: "Issuer undertakes to exercise its discretion under ISP98 Rule 3.12 to waive the requirement to present this Standby (or to replace it) against assurances and indemnities that are satisfactory to Issuer and made in favor of Issuer and Applicant." Under this clause the issuer would determine what is satisfactory, but the applicant would bear the ultimate risk of payment against a forged demand.

¹⁵ Overdrawing. This sentence supersedes ISP98 Rule 3.08(e) (Partial Drawing and Multiple Presentations; Amount of Drawings) which provides that a drawing that exceeds the amount available under the standby is discrepant. This superseding sentence requires the issuer to pay the full amount available under the standby against a presentation that would comply but for the overdrawing. Inclusion of this sentence should be reconsidered if the standby requires presentation of a valuable document that the beneficiary might prefer be returned rather than delivered for less than the amount demanded.

This sentence could be enhanced by adding the phrase "notwithstanding ISP98 Rule 3.08(e)", but such an addition is unnecessary and might put into question other standby provisions that supersede other ISP98 rules. This ISP98 Form 11.1 does not recite the exclusion or modification of an ISP98 rule where the wording in the standby is "specific and unambiguous". See ISP98 Rule 1.11(d)(iii) (Interpretation of these Rules). The undertaking "to pay the amount available" is sufficiently specific and unambiguous to supersede ISP98 Rule 3.08(e) as to the effect of an overdrawing.

¹⁶ Expiration. This ISP98 Form 11.1 is based on the common practice of stating a specific calendar date for expiry. See ISP98 Rule 9.01 (Duration of Standby), UCC § 5-106 (Issuance, Amendment, Cancellation, and Duration), and OCC regulation 12 C.F.R. § 7.1016(b)(1)(iii).

The stated expiration date should be set sufficiently after the underlying obligation becomes due to allow for obtaining internal authorization to make a drawing, to satisfy any timing or other requirement for drawing provided in the relevant government regulation or contract, and to make a curative drawing after any refusal of an initial drawing. If payment of the underlying obligation may be made outside of the standby, the stated expiration date should be set to allow for drawing after any possible rescission of an outside payment made by an insolvent payer.

The expiration date stated in a standby is not necessarily the last day on which a complying presentation may be made under the standby. ISP98 Rule 3.13 (Expiration Date on a Non-Business Day) automatically extends a weekend expiration date to the next business day. ISP98 Rule 3.14 (Closure on a Business Day and Authorization of Another Reasonable Place for Presentation) extends by at least 30 days an expiration date that occurs on a business day when the issuer is closed for any reason (including force majeure).

ISP98 Rule 3.14 may be restated in standby text, e.g.: "If on the last business day for presentation the place for presentation stated in this Standby is for any reason closed and Beneficiary does not make timely presentation because of the closure, then the last day for presentation is automatically extended to the day occurring 30 calendar days after that place for presentation re-opens for business or, if earlier, 30 calendar days after Issuer gives Beneficiary a written notice in which Issuer authorizes another reasonable place for presentation and that place is open for business on the last day for presentation and on each of the preceding 15 business days."

ISP98 Rule 3.14(a) does not apply where the issuer is open on the expiration date but closed in the days preceding the expiration date. The above provision could be expanded, e.g.: "If on the last business day for presentation or on any of the preceding 15 business days . . ."

¹⁷ Automatic extension. This paragraph on automatic extension should be included only in standbys that are outstanding long enough to require automatic extension of the stated expiration date.

Automatic extension provisions in standbys have arisen out of regulatory, commercial law, and practical business concerns about indefinite or overlong exposure under bank letters of credit. In addition to safety and soundness considerations, UCC § 5-106 (Issuance, Amendment, Cancellation, and Duration) limits the duration of letters of credit that are indefinite to one year and those that purport to be perpetual to five years. Moreover, prudent banking practices would suggest an annual re-evaluation of the applicant's credit standing. These considerations have resulted in standby provisions that set the expiration date at one year after issuance and then

provide for automatic one-year extensions, subject to the issuer's giving a notice of non-extension allowing for a drawing before the standby expires.

ISP98 Rule 2.06(a) (When an Amendment is Authorised and Binding) makes “automatic amendments” effective without further notification or consent if the automatic amendment is expressly stated in the standby. Accordingly, it is desirable to include the word “automatic” in any standby clause intended to make an amendment effective based on the terms of the standby and not by obtaining the beneficiary’s consent. It is unnecessary to recite that an automatic extension is “without amendment” or that an automatic extension clause is a “condition”.

This ISP98 Form 11.1 uses the words “extend” and “non-extension”, and not “renew” or “non-renewal” or “reinstate”, to make clear that the intent is to amend, and not replace, the standby and not to affect the amount available.

The word “evergreen” is popularly used to refer to automatic extension clauses; however, this word cannot substitute for, or usefully supplement, an automatic extension clause. See ISP98 Rule 1.10(c)(ii) (Redundant or Otherwise Undesirable Terms).

An automatic extension clause does not render a standby perpetual. Official Comment 4 to UCC § 5-106 (Issuance, Amendment, Cancellation, and Duration) makes clear that an automatically extending letter of credit is not perpetual if it may be terminated in the issuer's discretion by notice to the beneficiary. See also 12 C.F.R. § 7.1016(b)(1)(iii)(B) (terms should permit national bank to terminate the undertaking either on a periodic basis or at will upon either notice or payment to the beneficiary).

¹⁸ One year; 30 days. The period of one year is the standard time frame for successive automatic extensions to facilitate annual credit reviews by U.S. bank issuers of their applicants. This sentence sets as the expiration date the same calendar month and date for each succeeding one-year period in accordance with standby practice and ISP98 Rule 9(b) (Timing).

A 30-day period for giving or receiving a notice of non-extension is common, but a longer period (e.g., 60 days) may be appropriate. The length of that period is affected by the length of time expected for (i) the issuer to re-approve the applicant’s credit, (ii) the applicant to replace the standby, and (iii) the government beneficiary to draw as permitted by the standby and the underlying transaction. The government's regulation or contract should address requirements for satisfactory replacement. See endnote 37 (Retraction or replacement standby).

¹⁹ Retraction of non-extension notice. Standby operations' personnel may not receive credit approval for extension before the date required to initiate sending a timely non-extension notice and, as a result, may issue an effective notice of non-extension and later receive credit approval for extension. While the Annex B demand form includes an optional reference to retraction, this ISP98 Form 11.1 does not authorize the issuer to give a notice of retraction. To authorize an effective retraction, the following clause should be considered for insertion in the standby text: “At any time before the next expiration date Issuer may retract its notice of non-extension by

giving Beneficiary a written notice of retraction in the same manner as giving notice of non-extension and thereby automatically extend the expiration date." Retraction and replacement are best addressed in the underlying regulation or contract, because it is difficult for standby text to cover all of the variations that may arise, including treatment of any demands made after a notice of non-extension is given.

²⁰ Send or receive. Automatic extension clauses differ in the extent to which they spell out where and how a notice of non-extension must or may be sent to, or be received by, the beneficiary in order to establish an expiration date that is not subject to further automatic extension. Given the "independent" and formal relationship of an issuer to a beneficiary, there are considerable practical difficulties in determining or proving whether and when a notice has been given by an issuer to a beneficiary. They are multiplied for all concerned if a notice must also be given to the applicant or other party, as well as the beneficiary. See ISP98 Form 2 (Model Standby Providing for Extension) endnote 4.

Some courts apply strict compliance concepts to issuer notices to a beneficiary. Any clause on giving a non-extension notice should provide for a workable limitation on a standby's duration by the giving of advance notice and should be supplemented by a final expiry date so as to avoid uncertainty as to the duration of the standby and avoid any need for indefinite retention of proof of due expiry. This ISP98 Form 11.1 requires that a non-extension notice be in writing and given to the beneficiary by means which allow for tracking delivery by mail or courier service to the beneficiary's address as stated in the standby. This form also provides for an alternative of giving an effective notice by proving actual timely receipt by the beneficiary in the absence of proof of delivery by mail or courier.

²¹ Final expiration date. If a standby provides for automatic extensions, then an end date for automatic extensions, even if it is set many years in the future, is highly desirable. Such a final date is important for bank safety and soundness reasons, as well as issuer's and confirmer's record-keeping purposes, particularly to avoid having to retain indefinitely proof that a standby was terminated by expiration following an effective notification of non-extension (or was honored or otherwise reduced to zero).

This ISP98 Form 11.1 suggests a final expiration date set five years after standby issuance based on the five-year limitation on "perpetual" letters of credit in UCC § 5-106(d) (Issuance, Amendment, Cancellation, and Duration) discussed in endnote 17 (Automatic extension).

Assuming that the underlying government regulation or contract provides that a required standby must remain outstanding as long as the underlying obligations are outstanding and that imminent expiry will entitle the beneficiary to claim payment before expiry (see endnote 8 (Annexed form of payment demand)), the government beneficiary would have sufficient leverage to obtain either a timely extension of the final expiration date or payment before expiry. The final expiration date of the standby can always be extended by amendment in the usual way, i.e., by the issuer's issuance of an amendment that satisfies the signed writing requirement of UCC § 5-104 (Formal

Requirements) to which the beneficiary consents as required by ISP98 Rule 2.07 and UCC § 5-106(d).

²² Three days to examine and pay a presentation. ISP98 Rules 2.01(c) (Undertaking to Honour by Issuer and Any Confirmer to Beneficiary) and 5.01 (Timely Notice of Dishonour) provide for the time an issuer has to honor or dishonor and include a safe-harbor of three business days after presentation. That three-day period begins on the business day following the business day of presentation. This standby text converts that three-day safe harbor period in ISP98 into a timing requirement for payment of a complying presentation. This standby text would supersede the ISP98 rule, and both would supersede the "reasonable time" provision in UCC § 5-108(b) (Issuer's Rights and Obligations).

²³ Place and method of payment. If a standby does not state an exclusive place or method of payment, then an issuer may voluntarily follow the presenter's request. See ISP98 Rule 5.08 (Cover Instructions/Transmittal Letter). Annexes A and B in this ISP98 Form 11.1 include a provision to be completed by the beneficiary to request payment by wire transfer. This provision requires that the beneficiary's demand for payment identify the beneficiary's bank and the beneficiary's account to be credited by that bank. (Under UCC § 4A-406 acceptance by the beneficiary's bank of a funds transfer for credit to the beneficiary's account satisfies the issuer's payment obligation.) See endnote 33 (Request for wire transfer to beneficiary's account), which notes that a request to pay an entity other than the beneficiary is an attempt to assign proceeds.

Including the method of payment in the text of a standby when issued may deter forged beneficiary demands, as well as avoid delays resulting from the issuer's receipt of an inadequate request as to the method of payment. If payment by wire transfer is desired, the following standby text may be substituted (and completed before the standby is issued): "Payment shall be made by wire transfer to an account of Beneficiary as follows: **[name, address, and routing number of Beneficiary's bank, and name and number of Beneficiary's account]** or to such other bank account of Beneficiary as Beneficiary may duly request of Issuer". If payment by check is desired, the following standby text may be substituted: "Payment shall be made by Issuer's check payable to Beneficiary sent to Beneficiary's above-stated address by nationally recognized overnight courier."

If an assignment of proceeds is contemplated, one way to provide for it and to limit the issuer's discretion to decline to acknowledge it would be to add to the standby text here: "or of Beneficiary's assignee of proceeds identified in Beneficiary's demand with the assignee's name and address, the name and routing number of the assignee's bank in the United States, and the name and number of the assignee's account to be credited. Issuer shall acknowledge any such request for an assignment of proceeds, subject only to compliance with mandatory applicable law." This additional standby text, with a corresponding addition in Annex A (and in any other form of assignable payment demand) would constitute the issuer's advance acknowledgement of a possible future assignment of proceeds to an assignee adequately identified in a beneficiary's complying demand directing payment to the beneficiary's named assignee. Accordingly, the

issuer (as well as the government beneficiary) might want to include a beneficiary statement that, e.g., the assignee will be using the standby proceeds for a purpose required or permitted by the underlying contract or regulation or will be holding proceeds as a trustee, custodian, or the like representing one or more third parties with government recognized claims against the applicant. See ISP98 Rule 6.08 (Conditions to Acknowledgement of Assignment of Proceeds), listing conditions that an issuer might consider before agreeing in advance to acknowledge an assignment of standby proceeds.

An issuer's response to a beneficiary's request may be affected by regulatory requirements limiting wire transfers to a permissible financial institution for credit to a permissible account in a permissible country. No matter what a standby, demand form, or separate request for routing payment may state, applicable law, e.g., a court or government order, may block payment.

Issuers rarely undertake to send an advice of payment to beneficiaries. In the unusual case where beneficiaries lack access to reports that their requested wire transfers were received and credited by their banks, the following clause might be added: "A notice of such payment shall be sent to Beneficiary's above-stated address."

²⁴ Incorporation of ISP98; optional choice of law and forum. UCC § 5-116(c) (Choice of Law and Forum) provides that incorporated "rules of custom or practice" will govern an issuer's liability and will supersede conflicting UCC Article 5 provisions, except for the few that are non-variable under UCC § 5-103(c) (Scope). Neither ISP98, which postdates UCC Article 5, nor the standby text provided in this ISP98 Form 11.1, including endnotes, conflicts with any of the non-variable UCC provisions.

UCC § 5-116 expressly refers to the Uniform Customs and Practice for Documentary Credits ("UCP") as an example of incorporated practice rules. Before 1998 many domestic standbys were issued subject to a version of the UCP. Many government standbys are still issued subject to UCP500 or UCP600 because government agencies have been slow to update their forms, i.e., to recognize the superiority of UCP600 over UCP500 and of ISP98 over both UCP500 and UCP600 as applied to standbys. This ISP98 Form 11.1 could be adapted for standbys to be issued subject to UCP, with particular attention paid to the UCP's articles on force majeure closure and installment drawings and on the treatment of conflicting data in a presentation. This form could also be adapted for standbys to be issued without incorporating any published practice rules, with the effect of obligating a U.S. bank issuer to observe standard standby practice as well as the specific gap-filling provisions of UCC § 5-108 (Issuer's Rights and Obligations) on compliance, preclusion, and non-documentary conditions. These endnotes do not further address adapting this form for U.S. government standbys issued subject to other practice rules or no practice rules.

This ISP98 Form 11.1 does not include a choice of law or forum clause, relying on UCC § 5-116(b) to apply UCC Article 5 as enacted in the state where the issuer is located. Many standbys issued by U.S. banks to U.S. beneficiaries are silent on applicable law and forum.

Those standbys issued by U.S. banks that do choose law typically restate UCC § 5-116, e.g.: "This standby is issued subject to ISP98 and, as to matters not covered by ISP98, is governed by the law of **[name of the state where the issuer is located]**." A common addition is: "and applicable federal law". There is no need to exclude any state's conflict-of-laws rules; UCC § 5-116(a) as enacted in every state makes the choice of law in a letter of credit absolutely enforceable.

If the standby also includes a forum clause, it typically refers to the same state as that chosen as applicable law, e.g.: "The courts located in **[state]** shall have exclusive jurisdiction over any action to enforce Issuer's obligations under this Standby." UCC § 5-116(e) as enacted in every state makes the choice of forum in a letter of credit absolutely enforceable.

A government beneficiary should consider not only its preferences but also the preferences of otherwise acceptable banks that may resist a choice-of-law or forum clause that chooses a state that has enacted a materially varied version of UCC Article 5 or that has problematic letter of credit case law. Some banks will refuse to issue standbys under such legal regimes, prejudicing applicants' abilities to obtain cost-effective standbys from the bank or banks with which they maintain credit lines and government beneficiaries' abilities to obtain standbys from banks with operational expertise. Some banks will issue standbys subject to the law of one of only a few approved states.

Although state variations in the adoption of UCC Article 5 are relatively few and generally concern remedy issues, whenever UCC Article 5 in a particular state is at issue, consideration should be given to the possibility that there may be a relevant state variation in UCC Article 5. See endnote 38 (References to UCC Article 5). Material state variations of UCC Article 5 are noted in *LC Rules & Laws*.

A standby constitutes the obligations of its issuer. Accordingly, a choice-of-law or forum clause would not necessarily apply to the obligations of a nominated bank and particularly a confirmer, which, in the case of a U.S. bank confirmer would be treated as the issuer of a parallel independent undertaking from a state that may be different from the standby issuer's state.

²⁵ Charges and fees for issuance, advice, and confirmation. The obligations of an issuer (and confirmer) to honor a complying demand do not allow for deduction or delay unless the standby otherwise states or applicable law otherwise mandates. ISP98 Rule 8 (Reimbursement Obligations) obligates applicants to reimburse issuers and obligates issuers to reimburse nominated banks for their fees and charges; it imposes no such obligations on beneficiaries. Accordingly, this paragraph is included for comfort.

This ISP98 Form 11.1 does not authorize another person to advise, receive presentation, give value, or confirm. The optional sentence referring to the fees and charges of any such "nominated person" should be included only if the standby nominates another to act. See endnote

6 (Nomination) and ISP98 Rule 2.04 (Nomination).

If a beneficiary uses an advising bank to undertake other functions, such as to monitor the standby for imminent expiry or to forward a presentation of documents, those other functions would not be covered by an issuer's undertaking to pay fees for advising the standby.

²⁶ Communications. This optional clause is included because many bank issuers include in their standbys a standard provision on communications to them (and frequently with a reminder to use the issuer's standby reference number when communicating about the standby). A government beneficiary may wish to develop its own standard provision for communications from issuers to it.

This ISP98 Form 11.1 does not provide for automatic amendment upon notified change of addresses (telephone and electronic as well as physical office addresses, including attention party information). Changing the beneficiary's address may be facilitated by adding "or such other address as Beneficiary may specify in a written notice given to Issuer in the manner required to present a payment demand" or, more formally, by adding the following text and annex: "unless Beneficiary makes a demand in the form of Annex C (Demand for Change of Beneficiary's Address), completed as indicated and presented to Issuer, whereupon Beneficiary's address shall be automatically amended in accordance with Beneficiary's demand."

Annex C: Demand for Change of Beneficiary's Address

[INSERT DATE]

[name and address of Issuer or other addressee at place of presentation as stated in standby]

Re: Standby Letter of Credit No. **[reference number]**, dated **[date]**, issued by **[Issuer's name]** ("Standby").

The undersigned Beneficiary demands that its address for sending all communications related to the Standby be changed from **[INSERT PRIOR ADDRESS]** to **[INSERT NEW ADDRESS]**, effective on the later of Issuer's receipt or **[INSERT DATE]**.

[Beneficiary's name]

By its authorized officer:

[INSERT ORIGINAL SIGNATURE]

[INSERT TYPED/PRINTED NAME AND TITLE]

No similar provision is needed for changes in the address of the issuer because ISP98 Rule 3.14(b) (Closure on a Business Day and Authorization of Another Reasonable Place for Presentation) provides a mechanism for the issuer automatically to indicate a change of the address to which presentation must be made, provided notice thereof is timely received by the beneficiary.

²⁷ Demand issuance date. ISP98 Rule 4.16(b)(ii) (Demand for Payment) provides that a demand must contain an issuance date, and ISP98 Rule 4.06 (Date of Documents) provides that its issuance date may not be later than the date of its presentation.

²⁸ Information to be inserted in annexed demand form before standby is issued. The information in bold type at the top of Annex A (addressee and standby identification) should appear in the demand form when the standby is issued and be consistent with the information in the text of the standby. See ISP98 Rules 3.01 (Complying Presentation under a Standby) and 3.03 (Identification of Standby), 3.04 (Where and to Whom Complying Presentation Made), and 3.06 (Complying Medium of Presentation). If these data fields are blank or if there is no annexed demand form, then the beneficiary should provide this information in any demand.

²⁹ Beneficiary statements. Standbys commonly require presentation of beneficiary statements and commonly combine them with the required form of demand for payment. Words other than “states”, such as “certifies”, “represents”, “warrants”, “promises”, or a combination of those words, can also be used in the applicable government regulation or contract, in which case the required standby form should also use those words.

A standby that requires a statement from the beneficiary and specifies the precise wording is subject to ISP98 Rule 4.09(b) (Identical Wording and Quotation Marks). That rule applies ISP98 Rule 4.01 (Examination for Compliance) so as to excuse the beneficiary from having to reproduce apparent typographical errors and the like in the standby and to excuse apparent typographical errors and the like that may be included in the documents presented. Excusable errors are those apparent when the standby and the documents presented are “read in context”, the context being an examination for compliance under ISP98 and not an examination of the underlying transaction.

If the standby does not specify the precise wording, then ISP98 Rule 4.09(a) should be consulted. It allows a presented demand to use any words that “appear to convey the same meaning”. Flexibility may also be introduced by adding alternative wording to the annexed form of demand or otherwise generally indicating in the annexed form of demand how blank spaces may be completed.

If no flexibility whatsoever is desired (e.g., because the demand or statement must be delivered to a third person in a precisely specified form), then ISP98 Rule 4.09(c) should be consulted, with the understanding that it should be invoked rarely, that it requires use of the word “exact” or

"identical" in the standby, and that its use may lead to unintended consequences for the issuer, applicant, or beneficiary.

³⁰ "Applicant" as underlying obligor. This demand form uses "Applicant", which is a defined term in the text of the standby, and assumes that the applicant and beneficiary are parties to the underlying agreement that establishes the obligations to be supported by the standby. If this defined word is omitted from this demand form (as it should be if the "Applicant" is not the counter party to the government beneficiary), the name of the party to the underlying transaction should be inserted here. See endnote 2 (Applicant).

The following text covering defined terms may be appropriately added: "This demand is made in accordance with the terms and conditions, including defined terms, of the Standby and ISP98."

³¹ Obligated/default. This beneficiary statement indicates that the applicant is "obligated to pay" the amount demanded, not that there is a "default". A default statement is inapt where the amount demanded is payable on the date demanded without regard to the occurrence or continuance of a default or where "default" is not adequately defined in the underlying contract or regulation or where "default" may require that an action be taken that may be prohibited under laws triggered by the insolvency of the applicant or other party. This model demand form avoids use of and reliance on the word "default".

³² Identification of underlying obligations; use of proceeds. This demand form includes a reference, which could be general or specific, to the underlying obligations of the applicant to the government beneficiary as provided in the underlying contract or regulation. This approach is desirable for the reasons indicated in endnote 8 (Annexed form of payment demand). As is the case throughout this ISP98 Form 11.1, the government beneficiary is expected to draft model text for its model form with standard references to itself and its regulation, etc., and later to develop with the particular applicant the details for the particular contract to be supported by the standby.

This demand form does not include a beneficiary statement regarding use of any payment received from a drawing under the standby. See ISP98 Form 1 endnotes 31-33 on the optional "use of proceeds" text in Annex A of Form 1. Annex A (and B) of this ISP98 Form 11.1 could usefully add, after an adequate identification of the underlying obligations: "Beneficiary further states that the proceeds from this demand will be used to satisfy or secure the above-identified obligations and that Beneficiary will account to Applicant for any proceeds that are not so used."

³³ Request for wire transfer to beneficiary's account. This term in the demand form implements the payment term in the standby. It may be unnecessary if the text of the standby includes satisfactory wire transfer information for payment to the beneficiary. See endnote 23 (Place and method of payment).

If the standby text provides for a possible assignment of proceeds to be made in the beneficiary's

demand (see endnotes 1 (Name and address of Applicant) and 23 (Place and method of payment)), then the annexed demand form could add, e.g.: “Alternatively, if this demand does not provide account information for Beneficiary, Beneficiary requests that payment be made to Beneficiary’s assignee of proceeds, as follows: [INSERT NAME AND ADDRESS OF BENEFICIARY’S ASSIGNEE] by wire transfer to an account of Beneficiary’s assignee of proceeds, as follows: [INSERT NAME, ADDRESS, AND ROUTING NUMBER OF ASSIGNEE’S BANK, AND NAME AND NUMBER OF ASSIGNEE’S ACCOUNT TO BE CREDITED BY ITS BANK].]” As noted in endnote 23, this added text could also include a beneficiary statement that, e.g., the assignee will be using the standby proceeds for a purpose required or permitted by the underlying contract or regulation or will be holding proceeds as a trustee, custodian, or the like representing one or more third parties with government recognized claims against the applicant. As also noted in endnote 23, an issuer’s acknowledging or effecting an assignment of proceeds is subject to laws regulating money laundering, sanctions, and other matters that apply to issuers requested or required to effect payment to an assignee.

³⁴ Signer authentication. This demand form requires the signer to indicate in the signature line that the demand and statement are made by the named beneficiary located at the address stated in the standby. Accordingly, the beneficiary’s name and address should be stated in this demand form when the standby incorporating it is issued. If desired, the title(s) or names(s) of the beneficiary’s permitted signers may also be specified in the demand form when the standby is issued.

³⁵ Original signature. Assuming that Annex A is to be presented as a paper document, when presented it should bear an original signature of an individual with the signer’s printed name and officer title below. See ISP98 Rules 1.09(a) (Defined Terms (“Signature”)), 3.06(d) (Complying Medium of Presentation), and 4.07 (Required Signature on a Document).

³⁶ Annex B endnotes. The endnotes for Annex B address only those few aspects that are unique to the Annex B form of demand. Otherwise, it is modeled on Annex A, the endnotes for which are not repeated.

³⁷ Retraction or replacement standby. The applicable government regulation or contract may permit the applicant to arrange for a timely retraction of the notice of non-extension or for a replacement standby. If the standby also permits retraction of a non-extension notice, as suggested in endnote 19 (Retraction of non-extension notice), the required beneficiary statement might add that no retraction of the non-extension notice and no permitted replacement standby (or other equivalent security) has been timely provided.

³⁸ References to UCC Article 5. All references in these endnotes to UCC Article 5 are to the official text of Article 5 which was substantially revised in 1995 and promulgated by the Uniform Law Commissioners and the American Law Institute. Although all states and the District of Columbia have enacted a substantially identical version of UCC Article 5, some state enactments have re-numbered or re-lettered its sections and some have omitted or altered

particular subsections. Where the law of a particular state is at issue, the version enacted in that state should be consulted before relying on the section cited in these endnotes. See http://topics.law.cornell.edu/wex/table_ucc.

³⁹ Banking Regulations. The U.S. Office of the Comptroller of the Currency (“OCC”) is an independent bureau of the U.S. Department of the Treasury established in 1863. It regulates and supervises national banks and Federal savings associations to ensure that they operate in a safe and sound manner and in compliance with all applicable laws.

Over the years, the OCC has issued extensive rulings on bank letters of credit. In 1996, after the 1995 revision of UCC Article 5, the OCC promulgated a comprehensive version of its interpretive ruling, which was designated as 12 C.F.R. § 7.1016, replacing earlier versions in the Code of Federal Regulations dating back to 1971. 12 C.F.R. § 7.1016 has been further amended several times to expressly recognize developments in practice rules, including ISP98.

Although not imposing requirements on the enforceability of a letter of credit, through 12 C.F.R. § 7.1016 the OCC has imposed safety and soundness standards for letters of credit. The regulation indicates that its scope applies to all independent undertakings, focusing on their documentary character and requiring that they be definite, limited in amount and duration, and that the issuer or confirmer be able to be reimbursed. It also addresses undertakings to honor by delivering an item of value, automatic extensions, undertakings for a bank’s own account, requisite operational expertise, and documentation.

While 12 C.F.R. § 7.1016 is by its terms applicable only to national banks, its principles frequently appear in rules applied to financial institutions chartered under different authority. For example, under 12 C.F.R. § 28.13, a Federal branch or agency of a foreign bank is generally subject to the same regulations as if it were a national bank. Federal and state savings associations are subject to the OCC’s regulation 12 C.F.R. § 160.120 and the Federal Deposit Insurance Corporation’s regulation 12 C.F.R. § 390.267, respectively, both of which essentially track 12 C.F.R. § 7.1016.

Bank issued standby letters of credit are thus subject to regulatory restraints that have evolved to assure the safety and soundness of the banking system. Banking regulations are likely to evolve to address and sometimes prohibit or limit practices that are becoming or have become unsound. In developing requirements for standby letters of credit, government agencies should take bank regulatory restraints into account and avoid standby requirements that bank regulators might consider unsafe or unsound for bank issuers.