CHAPTER 405
UNIFORM COMMERCIAL CODE — LETTERS OF CREDIT

405.101 Short title. This chapter shall be known and may be cited as uniform commercial code — letters of credit.

405.102 Scope. (1) This chapter applies:
(a) To a credit issued by a bank if the credit requires a documentary draft or a documentary demand for payment; and
(b) To a credit issued by a person other than a bank if the credit requires that the draft or demand for payment be accompanied by a document of title; and
(c) To a credit issued by a bank or other person if the credit is not within par. (a) or (b) but conspicuously states that it is a letter of credit or is conspicuously so entitled.

(2) Unless the engagement meets the requirements of sub. (1), this chapter does not apply to engagements to make advances or to honor drafts or demands for payment, to authorities to pay or purchase, to guarantees or to general agreements.

(3) This chapter deals with some but not all of the rules and concepts of letters of credit as such rules or concepts have developed prior to chs. 401 to 411 or may hereafter develop. The fact that this chapter states a rule does not by itself require, imply or negate application of the same or a converse rule to a situation not provided for or to a person not specified by this chapter.

History: 1979 c 89; 1991 a. 148, 304, 315

405.103 Definitions. (1) In this chapter unless the context otherwise requires:
(a) An "advising bank" is a bank which gives notification of the issuance of a credit by another bank.
(b) A "beneficiary" of a credit is a person who is entitled under its terms to draw or demand payment.
(c) A "confirming bank" is a bank which engages either that it will honor a credit already issued by another bank or that such a credit shall be honored by the issuer or a third bank.
(d) "Credit" or "letter of credit" means an engagement by a bank or other person made at the request of a customer and of a kind within the scope of this chapter (s. 405.102) that the issuer will honor drafts or other demands for payment upon compliance with the conditions specified in the credit. A credit may be either revocable or irrevocable. The engagement may be either an agreement to honor or a statement that the bank or other person is authorized to honor.
(e) A "customer" is a buyer or other person who causes an issuer to issue a credit. The term also includes a bank which procures issuance or confirmation on behalf of that bank's customer.
(f) A "documentary draft" or "documentary demand for payment" is one the honor of which is conditioned upon the presentation of a document or documents. "Document" means any paper including document of title, security, invoice, certificate, notice of default and the like.
(g) An "issuer" is a bank or other person issuing a credit.

(2) Other definitions applying to this chapter and the sections in which they appear are:
(a) "Notation of credit" — s. 405.108.
(b) "Presenter" — s. 405.112 (3).

405.104 Formal requirements; signing. (1) Except as otherwise required in s. 405.102 (1) (c) on scope, no particular form of phrasing is required for a credit. A credit must be in writing and signed by the issuer and a confirmation must be in writing and signed by the confirming bank. A modification of the terms of a credit or confirmation must be signed by the issuer or confirming bank.

(2) A telegram may be a sufficient signed writing if it identifies its sender by an authorized authentication. The authentication may be in code and the authorized naming of the issuer in an advice of credit is a sufficient signing.

History: 1983 a. 189

405.105 Consideration. No consideration is necessary to establish a credit or to enlarge or otherwise modify its terms.

405.106 Time and effect of establishment of credit. (1) Unless otherwise agreed a credit is established:
(a) As regards the customer as soon as a letter of credit is sent to the customer or the letter of credit or an authorized written advice of its issuance is sent to the beneficiary; and
(b) As regards the beneficiary when the beneficiary receives a letter of credit or an authorized written advice of its issuance.

(2) Unless otherwise agreed once an irrevocable credit is established as regards the customer it can be modified or revoked only with the consent of the customer and once it is established as regards the beneficiary it can be modified or revoked only with the beneficiary's consent.

(3) Unless otherwise agreed after a revocable credit is established it may be modified or revoked by the issuer without notice to or consent from the customer or beneficiary.

(4) Notwithstanding any modification or revocation of a revocable credit any person authorized to honor or negotiate under the terms of the original credit is entitled to reimbursement for or honor of any draft or demand for payment duly honored or negoti-
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See note to 405.114, citing Werner v. A. L. Grotenmat & Sons, Inc. 80 W 2d 513, 259 NW (2d) 310.

405.110 Availability of credit in portions; presenter’s reservation of lien or claim. (1) Unless otherwise specified a credit may be used in portions in the discretion of the beneficiary.
(2) Unless otherwise specified a person by presenting a documentary draft or demand for payment under a credit relinquishes upon its honor all claims to the documents and a person by transferring such draft or demand or causing such presentment authorizes such relinquishment. An explicit reservation of claim makes the draft or demand noncomplying.

405.111 Warranties on transfer and presentment. (1) Unless otherwise agreed the beneficiary by transferring or presenting a documentary draft or demand for payment warrants to all interested parties that the necessary conditions of the credit have been complied with. This is in addition to any warranties arising under chs. 403, 404, 407 and 408.
(2) Unless otherwise agreed a negotiating, advising, confirming, collecting or issuing bank presenting or transferring a draft or demand for payment under a credit warrants only the matters warranted by a collecting bank under ch. 404 and any such bank transferring a document warrants only the matters warranted by an intermediary under chs. 407 and 408.

405.112 Time allowed for honor or rejection; withholding honor or rejection by consent; “presenter”. (1) A bank to which a documentary draft or demand for payment is presented under a credit may without dishonor of the draft, demand or credit:
(a) Defer honor until the close of the third banking day following receipt of the documents; and
(b) Further defer honor if the presenter has expressly or impliedly consented thereto.
(2) Failure to honor within the time specified in sub. (1) constitutes dishonor of the draft or demand for payment and of the credit.
(3) Upon dishonor the bank may unless otherwise instructed fulfill its duty to return the draft or demand for payment and the documents by holding them at the disposal of the presenter and sending the presenter an advice to that effect.
(4) “Presenter” means any person presenting a draft or demand for payment for honor under a credit even though that person is a confirming bank or other correspondent which is acting under an issuer’s authorization.

405.113 Indemnities. (1) A bank seeking to obtain (whether for itself or another) honor, negotiation or reimbursement under a credit may give an indemnity to induce such honor, negotiation or reimbursement.
(2) An indemnity agreement inducing honor, negotiation or reimbursement:
(a) Unless otherwise explicitly agreed, applies to defects in the documents but not in the goods; and
(b) Unless a longer time is expressly agreed, expires at the end of 10 business days following receipt of the documents by the ultimate customer unless notice of objection is sent before the expiration date. The ultimate customer may send notice of objection to the person from whom the ultimate customer received the documents and any bank receiving the notice is under a duty to send notice to its transferor before its midnight deadline.

405.114 Issuer’s duty and privilege to honor; right to reimbursement. (1) An issuer must honor a draft or demand for payment which complies with the terms of the relevant credit regardless of whether the goods or documents conform to the underlying contract for sale or other contract between the
customer and the beneficiary. The issuer is not excused from honor of such a draft or demand by reason of an additional general term that all documents must be satisfactory to the issuer, but an issuer may require that specified documents must be satisfactory to it.

(2) Unless otherwise agreed when documents appear on their face to comply with the terms of a credit but a required document does not in fact conform to the warranties made on negotiation or transfer of a document of title (s. 407.507) or of a certified security (s. 408.306) or is forged or fraudulent or there is fraud in the transaction:

(a) The issuer must honor the draft or demand for payment if honor is demanded by a negotiating bank or other holder of the draft or demand which has taken the draft or demand under the credit and under circumstances which would make it a holder in due course (s. 403.302) and in an appropriate case would make it a person to whom a document of title has been duly negotiated (s. 407.502) or a bona fide purchaser of a certified security (s. 408.302); and

(b) In all other cases as against its customer, an issuer acting in good faith may honor the draft or demand for payment despite notification from the customer of fraud, forgery or other defect not apparent on the face of the documents but a court of appropriate jurisdiction may enjoin such honor.

(3) Unless otherwise agreed an issuer which has duly honored a draft or demand for payment is entitled to immediate reimbursement of any payment made under the credit and to be put in effectively available funds not later than the day before maturity of any acceptance made under the credit.

History: 1985 a. 237

405.116 Transfer and assignment. (1) The right to draw under a credit can be transfered or assigned only when the credit is expressly designated as transferable or assignable.

(2) Even though the credit specifically states that it is non-transferable or nonassignable, the beneficiary may assign the beneficiary’s right to proceeds before performance of the conditions of the credit. Such an assignment is an assignment of an account under ch. 409 and is governed by that chapter except that:

(a) The assignment is ineffective until the letter of credit or advice of credit is delivered to the assignee which delivery constitutes perfection of the security interest under ch. 409; and

(b) The issuer may honor drafts or demands for payment drawn under the credit until it receives a notification of the assignment signed by the beneficiary which reasonably identifies the credit involved in the assignment and contains a request to pay the assignee; and

(c) After what reasonably appears to be such a notification has been received the issuer may without dishonor refuse to accept or pay even to a person otherwise entitled to honor until the letter of credit or advice of credit is exhibited to the issuer.

(3) Except where the beneficiary has effectively assigned the beneficiary’s right to draw or to proceed, nothing in this section limits the beneficiary’s right to transfer or negotiate drafts or demands drawn under the credit.

History: 1973 c. 215; 1991 a. 316

405.117 Insolvency of bank holding funds for documentary credit. (1) Where an issuer or advising or confirming bank has for a customer procured issuance of a credit by another bank becomes insolvent before final payment under the credit and the credit is one to which this chapter is made applicable by s. 405.102 (1) (a) or (b) on scope, the receipt or allocation of funds or collateral to secure or meet obligations under the credit shall have the following results:

(a) To the extent of any funds or collateral turned over after or before the insolvency as indemnity against or specifically for the purpose of payment of drafts or demands for payment drawn under the designated credit, the drafts or demands are entitled to payment in preference over depositors or other general creditors of the issuer or bank; and

(b) On expiration of the credit or surrender of the beneficiary’s rights under it unused any person who has given such funds or collateral is similarly entitled to return thereof; and

(c) A charge to a general or current account with a bank if specifically consented to for the purpose of indemnity against or payment of drafts or demands for payment drawn under the designated credit falls under the same rules as if the funds had been drawn out in cash and then turned over with specific instructions.

(2) After honor or reimbursement under this section the customer or other person for whose account the insolvent bank has acted is entitled to receive the documents involved.