

SUBJECT: Letters of Credit		
CATEGORY: Finance, Risk and Business Planning	POLICY NUMBER:	AF-002-02

1. PURPOSE

To provide direction for accepting Irrevocable Standby Letters of Credit (referred to herein as “Letters of Credit”) from applicants as security for development or non-development projects.

2. RISK AWARENESS

Letters of Credit are financial instruments that transfer the collection risk exposure from applicants (i.e. a developer) to financial institutions (i.e. a bank) for the purpose of facilitating transactions with the City of Vancouver (the “City”). The aim is to provide the City with financial security against the risk of an applicant’s non-performance of specific obligations that are usually defined in an agreement or application with the City.

3. SCOPE AND CONTEXT

This Policy applies to all City staff involved with requiring or accepting Letters of Credit from applicants for any development or non-development projects, services, or activities.

A Letter of Credit, issued by a financial institution for the benefit of the City, is a reliable form of financial security that ensures the City of compensation if an applicant fails to perform their obligations under the terms of a contract or an agreement or any other agreed upon service. All parties must mutually consent in order to amend or cancel Letters of Credit. The applicant must request any amendment or cancellation through the issuing financial institution and the beneficiary, in this case the City, must authenticate and approve the request.

4. ACCEPTABLE LETTERS OF CREDIT ISSUERS

The City will only accept Letters of Credit issued by financial institutions listed in **Appendix A**. This list is based on the City’s allowable issuers for investment purposes and the City may update this list from time to time.

Applicants who do not transact with any of the financial institutions in Appendix A may request that their bank have one of the financial institutions in Appendix A to issue original Letters of Credit directly to the City and for the benefit of the City.

5. ACCEPTABLE LETTERS OF CREDIT FORMAT

The City will only accept Letters of Credit issued in the exact format disclosed in **Appendix B** (which is approved by the City and the listed financial institutions). There are no exceptions to Appendix B.

6. CUSTODY AND OWNERSHIP

City staff must forward all original Letters of Credit to the City’s Treasury office (“Treasury”). Business units that require Letters of Credit from applicants will maintain full ownership and responsibility for management of any documents related to the Letters of Credit, including: delivery of required Letters of Credit; requesting Treasury to execute any demand draws (or partial draws); or requesting Treasury to release original Letters of Credit to the business unit for returning to the applicant. Treasury’s responsibility is limited to maintaining custody and safekeeping of Letters of Credit on behalf of business units.

In order to maintain a valid and accurate custody list the business unit that originally required the Letters of Credit must immediately inform Treasury upon the occurrence of any event affecting Letters of Credit.

Business units must submit requests for draws to Treasury and Treasury will manage draft(s) drawn with the issuing financial institution.

7. ALTERNATIVE FORMS OF SECURITY IN LIEU OF LETTERS OF CREDIT

To mitigate potential credit risk of the applicant/issuer and to avoid deficient documentation of terms and conditions stated in Letters of Credit, Treasury will not hold in custody any of the following as alternative forms of security in lieu of original Letters of Credit.

- Certified cheque
- Bank draft or money order
- Official cheque
- Entity⁽¹⁾ cheque
- Personal cheque

(1) Including, but not limited to, corporation, partnership, proprietorship, joint-venture, co-operative, trusts, branch, any other unincorporated entity

Alternative forms of security in lieu of the required Letters of Credit are not preferable and must be considered on a case-by-case basis. Business units must discuss, with Legal Services and Finance, in advance of accepting any alternative forms of security in lieu of the required Letters of Credit.

If applicants/issuers are only able to provide alternative forms of security in lieu of the required Letters of Credit, the business unit: 1) Must immediately deposit any received alternative forms of security into the City's bank account; and 2) Is fully responsible for managing and maintaining this alternate form of security in lieu of Letters of Credit, including but not limited to: documenting the details of the security; documenting appropriate terms and conditions related to any obligations of the applicant in favour of the City; documenting conditions for returning the security deposit; and as appropriate returning the security deposit. No interest shall accrue on any of these forms of security deposits to the benefit of the issuer.

8. REVIEW

Finance, Risk and Business Planning shall review this Policy annually or less frequently as deemed appropriate.

9. APPROVAL HISTORY

ISSUED BY: Finance, Risk and Business Planning	APPROVED BY: Director of Finance Director of Legal Services	DATE: 2016/06/24
REVISED BY:	APPROVED BY:	DATE: yyyy/mm/dd

APPENDIX A: Acceptable Letters of Credit Issuers

The following list of financial institutions may be updated from time to time.

Bank of Montreal
Bank of Nova Scotia (The)
Canadian Imperial Bank of Commerce
Canadian Western Bank
National Bank of Canada
Royal Bank of Canada
Toronto Dominion Bank (The)
HSBC Bank Canada
BlueShore Financial Credit Union
Coast Capital Savings Credit Union
Vancouver City Savings Credit Union

APPENDIX B: Acceptable Letters of Credit Form

[Financial Institution Letterhead]

IRREVOCABLE STANDBY LETTER OF CREDIT

Date of issue: []
Expiry date: []
Letter of Credit #: []

Beneficiary:

City of Vancouver
453 West 12th Avenue
Vancouver, B.C. V5Y 1V4
Canada

Applicant:

[Exact legal name of applicant]
[Exact address of applicant]

Attention: Treasury Office

“Amount”: CAD [Insert exact amount in figures]
([Insert Dollars in text] Dollars in Canadian Funds)

“Reference”: [Insert description, address (if applicable), and type of work (if applicable)]

Business Unit Name: [City of Vancouver business unit]
Contact Person: [City of Vancouver contact person's Title]

By order and on behalf of the Applicant, [Insert financial institution legal name] (“we”, “us”, or the “Bank”), hereby issue in favour of the City of Vancouver (“you” or the “Beneficiary”) this Irrevocable Standby Letter of Credit (referred to herein as “Letter of Credit”) in the Amount of CAD [Insert exact amount in figures] ([Insert Dollars in text]) as security for the above mentioned Reference, available by payment by Beneficiary’s Draft(s) at sight drawn on us accompanied by the original of this Letter of Credit and all amendments hereto (if any) and a written demand as described in paragraph 2 herein to be presented at the Bank, at the following addresses: [Insert financial institution Vancouver address] or [Insert financial institution other address].

This Letter of Credit is issued in accordance with the following terms and conditions:

1. Partial and multiple drawings are permitted up to the full amount of this Letter of Credit.
2. This Letter of Credit may be drawn upon by the Beneficiary at any time and from time to time up to and including the current or any future expiry date, and the Bank shall pay forthwith to the Beneficiary the amount stated in the demand to be payable upon presentation by the Beneficiary of a written demand (such written demand, a “Demand”) together the original of this Letter of Credit and all amendments (if any), whether the Applicant agrees or objects.
3. The Bank will not inquire as to whether or not you have a right to draw or make demand under this Letter of Credit and the Bank will pay to the Beneficiary the amount stated in the Demand whether or not the Applicant agrees that the amount stated in the Demand is due and payable by the Applicant to the Beneficiary and without recognizing any claim of the Applicant or objection by it to payment by us to the Beneficiary. Total demand of payment is not to exceed the total amount of this Letter of Credit.
4. We engage with you that any demand drawn in conformity with the terms of this Letter of Credit will be duly honoured on presentation. We acknowledge and agree that this Letter of Credit is clean, irrevocable, unconditional and without limitations.
5. The amount of this Letter of Credit may be reduced automatically from time to time only by the amount drawn upon by you or by formal notice in writing duly signed by the Beneficiary in Beneficiary’s letterhead received by us from you that you desire such reduction, indicating the amount to be reduced and the new amount of the Letter of Credit after such reduction.

6. It is a condition of this Letter of Credit that it shall be deemed to be automatically extended without amendment for additional terms of one (1) year each from the present or any future expiration date hereof, unless at least sixty (60) days prior to any such expiration date, we notify you in writing by registered mail or courier that we elect not to consider this Letter of Credit to be extended for any such additional period. Upon receipt of such notice, you may immediately draw by means of your written demand on or before the then expiration date up to the then available amount of the Letter of Credit stating that you are drawing under this Letter of Credit because we have elected not to extend it.
7. This Letter of Credit may also be cancelled prior to any expiry date, upon our receipt at the above noted address of the original of this Letter of Credit and all Amendments (if any) accompanied by Beneficiary's signed letter in its letterhead addressed to us requesting cancellation of the Letter of Credit.
8. Except so far as otherwise expressly stated, this Letter of Credit is subject to the Uniform Customs and Practice for Documentary Credits (2007 Revision), International Chamber of Commerce Publication No. 600. This Letter of Credit shall be governed by and construed in accordance with the laws of the Province of British Columbia and the applicable laws of Canada. The parties attorn to the courts of the Province of British Columbia in respect of all matters arising from and related to this Letter of Credit.

[Name of financial institution]

[Name of authorized signor]
[Title]

[Name of authorized signor]
[Title]