



## INTEGER WEALTH GLOBAL

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### Procedure Document

### SBLC Creation Process

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In today's financing landscape, one of the most misunderstood tools is the 'Standby Letter of Credit', commonly referred to as an SBLC. It is often treated as a silver bullet, something that can unlock capital, close a deal, or secure funding. However, what most applicants do not realise is that the SBLC is only as strong as the deal structure it supports. In many instances IWG uses the client's investment fund as most of the basis of the deal structure however in independent application cases, the following is of critical importance.

As an institution which has spent decades in trade finance, IWG can confirm that even a perfectly drafted, bank-issued SBLC can simply become of no use, if the transaction lacks legal, financial, and regulatory context. A strong instrument cannot make up for a weak or non-existent deal structure.

This guide expands on the entire process of issuing a 'Standby Letter of Credit' from beginning to end. Should you be creating an SBLC for a company, sponsor, or project owner planning to request one from a bank, the following information is what is needed to become familiar with before beginning.

### Step 1: Define the Transaction

The first step in issuing an SBLC is defining the transaction it is meant to support. An SBLC is not a standalone product, it needs to be rooted in a real business context. The issuing bank will require a clear explanation of:

- What the SBLC is securing (e.g., payment, performance, lease obligation)
- Who the beneficiary is
- The country and jurisdiction involved
- The amount and currency of the guarantee
- The reason the SBLC is being requested

If there is no commercial logic or legitimate project, substantial collateral or investment fund behind the SBLC, no reputable bank will proceed further.



## Step 2: Submit the SBLC Application

Once you have a defined transaction, you will need to apply for issuance through your bank formally. The application package generally includes:

- Completed SBLC application form (usually provided by the bank or IWG)
- Certificate of incorporation and company registration documents
- Valid identification for authorised signatories
- Board resolution approving the issuance
- Details of the beneficiary: legal name, physical address, bank name, and SWIFT/BIC code
- Requested amount and expiry date
- Draft SBLC wording (typically based on the beneficiary's template or a standard format)

The bank will also want to see the underlying agreement or project documentation, such as a contract, LOI, or performance agreement.

## Step 3: Credit and Collateral Review

After your application is submitted, the bank's credit team will conduct a financial review. They will assess:

- Your company's balance sheet, income statements, and bank references
- Credit history and repayment capacity
- Whether you qualify for unsecured issuance
- What form of collateral, if any, is being offered

Most SBLC's are issued either against 100% cash collateral, an intermediary collateraliser\* such as IWG, or under a secured line of credit. If your business has no history with the issuing bank and no posted collateral, you will not be approved. This is a non-negotiable standard at all legitimate financial institutions.

## Step 4: Compliance and Risk Assessment

Compliance review is conducted in parallel with credit due diligence. The bank will run KYC (Know Your Customer/Client) and AML (Anti-Money Laundering) checks on:

- The applicant
- The beneficiary
- The jurisdictions involved
- The nature of the transaction

They will also screen for sanctions risk, politically exposed persons, and reputational issues. Transactions involving high-risk countries or offshore shell entities may trigger a further review or be declined.

\* (A collateraliser is an entity who either stands and/or provides collateral for another client entity requiring collateral but who cannot provide collateral. The collateraliser then provides such collateral under a separate agreement with the client entity.)



## Step 5: Fee Agreement and Issuance Terms

If your application is approved, the bank will prepare a term sheet outlining the fees and conditions. You will typically need to agree to:

- Issuance fee (often between 1% and 2.5% per annum)
- SWIFT message and legal drafting fees
- Collateral custody fees (if applicable)
- Escrow service fees if third-party collateral is used such as IWG

Once the term sheet is signed and all fees are paid, the bank moves forward with preparing the instrument.

## Step 6: Legal Drafting of the SBLC

The bank's legal team or trade finance department will prepare the SBLC text. This will follow internationally recognized formats, usually **ISP98** for Standby Letters or **UCP600** if the SBLC is used for trade transactions.

The final draft will then need to be reviewed and approved by the applicant. The beneficiary may also be given a copy to ensure alignment. The SBLC text should be:

- Precise and enforceable
- Compliant with the bank's legal standards
- Matched to the underlying agreement

Note that once issued, the wording is binding.

## Step 7: SBLC Issuance and SWIFT Transmission

Once everything is finalised, the bank will issue the SBLC via **SWIFT MT760** to the beneficiary's bank. This is the standard method for transmitting financial guarantees.

A copy will be sent to the applicant, and the instrument becomes effective immediately upon delivery. Most SBLCs are irrevocable and cannot be cancelled unilaterally by either party.

## Step 8: Post-Issuance Monitoring

After issuance, the bank will track the SBLC through to its expiration. During this time, the bank will monitor:

- Any amendments or extension requests
- Whether the beneficiary makes a claim or draws
- Compliance with the SBLC's terms and conditions

Once the SBLC expires and no demand has been made, the collateral will be released, and the instrument will be archived.



## SBLC Issuance Checklist

Use this checklist to make sure you're prepared before approaching your bank:

- **Company & Legal Documents**
  - Certificate of incorporation
  - Board resolution
  - Identification of directors and signatories
  
- **Transaction Materials**
  - Purpose and use of the SBLC
  - Beneficiary name, address, and banking details
  - Contract or agreement, the SBLC is backing
  - Draft SBLC wording
  
- **Financials**
  - Audited financial statements
  - Bank statements
  - Collateral documents (if applicable)
  
- **Compliance**
  - KYC forms
  - AML declarations
  - Sanctions disclosures (if relevant)
  
- **Fees**
  - Term sheet signed
  - Issuance fees paid
  - Legal and SWIFT fees confirmed



## How to Receive and Validate an SBLC: A Beneficiary's Guide

If you as the applicant is the beneficiary of an SBLC, your role is not just to simply and readily accept it, as you will need to confirm that it is valid, enforceable, and properly issued. This is especially critical in high-value transactions and/or cross-border deals.

### Step 1: Provide Clear Wording

As the beneficiary, you should supply a draft of the SBLC language that protects your interests. You want to be clear on:

- What triggers a drawdown.?
- Whether partial drawings are allowed.?
- What documents are required to make a demand.?
- Whether expiry is fixed or rolling.?

(Consider that poor wording can leave you exposed even if the SBLC is genuine.)

### Step 2: Confirm Delivery Method

SBLCs should only be issued via authenticated SWIFT MT760 messages. Do not accept soft copies, PDFs, or MT799 pre-advice messages as substitutes for originals.

Your bank should be able to authenticate the receipt and confirm the legitimacy of the SBLC. If the SBLC originates from a questionable source or an offshore bank with no regulatory oversight, exercise caution.

### Step 3: Validate the Instrument

Once received, ask your trade finance team to:

- Verify the issuing bank
- Confirm that the SBLC terms match your contract
- Log the expiry date and set alerts
- Check that the rules governing the SBLC (e.g., ISP98) are specified

This ensures you have a legitimate path to draw funds if your counterparty defaults.

### Step 4: Monitor Expiry and Execution

Keep a close consideration of the SBLC's expiration date and ensure all terms are met on you as the beneficiary's side. If the instrument includes an evergreen clause, you will want to track automatic renewals.

If you intend to make a demand, gather all required documents well in advance and confirm the format with your bank to ensure a smooth process.



## In Conclusion

Issuing a Standby Letter of Credit is not simply about securing a piece of paper. It is about embedding that instrument into a credible, bankable, and legally sound transaction. Whether you are requesting one or receiving one, success depends on clarity, structure, and professional execution.

Real banks do not issue instruments in a vacuum. They issue them inside structured deals. If you are holding or requesting an SBLC, make sure your project or transaction can support it, otherwise, you are not holding leverage, rather that you are holding expensive paper with no value to it.