

	LETTERS OF CREDIT POLICY	
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SECTION:	Finance	
SUBJECT:	Letters of Credit	
AUTHORIZED BY:	Susanne Thompson, Deputy City Manager, CFO	
EFFECTIVE DATE:	July 2, 2024	

PURPOSE

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

This Letter of Credit Policy is designed to provide adequate protection to the City of Victoria as well as to be fair, reasonable, and provide some flexibility for our customers.

OBJECTIVES

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 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.

POLICY STATEMENTS

1. Acceptable Letters of Credit Issuers

Letters of credit matching the City of Victoria’s standard Letter of Credit format will be accepted from financial institutions that meet the credit rating criteria in accordance with the City’s Investment Policy.

2. Other Allowable Forms of Security

Alternative forms of security in lieu of Letters of Credit are not preferable and must be considered on a case-by-case basis and approved by the Director of Finance. If alternative forms of security are accepted such as cash, certified cheque, money order or bank draft, these will be deposited directly to the City of Victoria’s bank account.

In the case of affordable housing projects developed by BC Housing or a public body, the City will accept a letter of assurance or indemnity in lieu of a letter of credit. You can obtain the template from Legal Services.

3. Letters of Credit Format

The City requires each financial institution to meet the requirements as outlined in section 4 below. Appendix A provides an example of a Letter of Credit.

4. Letters of Credit Requirements

Where the City of Victoria requires a Letter of Credit, it must comply with the following requirements:

- Payable to the City of Victoria
- Canadian funds
- Original copy
- Include the name and address of the client
- Is payable at site at an identified branch of the issuer located in Victoria
- The project to which the Letter of Credit applies must be identified by a statement of purpose and, where such exists, reference to the agreement or the City's file number for the subdivision, development permit, or building permit to which the Letter of Credit is provided
- Is clean, irrevocable, unconditional and without limitations
- States the issue date and expiry date, if any, is for an initial term of not less than one year from the issue date and is thereafter automatically renewing
- Requires sixty (60) days prior notice by the issuer to the City in the event of non-renewal or cancellation by the issuer
- Entitles only the issuer to give notice of non-renewal
- Is signed by an authorized signatory of the issuer
- Permit full and partial drawings
- The City must have the right to make demand on the Letter of Credit
- The amount of the Letter of Credit may be reduced only by the amounts drawn upon it by the City of Victoria or by formal notice in writing from the City of Victoria to the financial institution authorizing a reduction
- States that the issuer will not enquire as to whether or not the City has a right to make demand on the Letter of Credit, that the City may make partial as well as full drawings, and that the issuer will duly honour drafts drawn in conformity with the Letter of Credit if presented to the issuer on or before the expiry date, if any, of the Letter of Credit
- Cannot contain a statement to the effect that any special certificates and/or requirements should accompany any draw on the Letter of Credit

5. Delivery

The Letter of Credit, whenever possible, should be delivered directly from the financial institution to the City of Victoria (attention: Finance).

Mailing Address: 1 Centennial Square
Victoria BC V8W 1P6

Courier Delivery Address: Finance Department
PSC Desk, 1 Centennial Square
Victoria, BC V8W 1P6

6. Custody and Ownership

All Letters of Credit or other allowable forms of security will be forwarded to the City of Victoria Finance Department. The Finance Department is responsible for approving and maintaining the security, and processing all reductions, releases and draws.

Departments must submit requests for reduction or release to Finance with verification that obligations have been met.

APPENDIX A: Letters of Credit Example

[Financial Institution Letterhead]

IRREVOCABLE STANDBY LETTER OF CREDIT

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

Beneficiary:
City of Victoria
1 Centennial Square
Victoria, B.C. V8W 1P6
Canada

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

Attention: Finance Department

“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)]

Contact Person: [City of Victoria 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 Victoria (“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: [Mandatory requirement: Insert financial institution Victoria address] or [Optional: 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.

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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.

[Name of financial institution]

[Name of authorized signor]
[Title]

[Name of authorized signor]
[Title]