Guide to ICC Uniform Rules for Demand Guarantees
URDG 758

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Guide to ICC Uniform Rules for Demand Guarantees

Users and issuers choosing the URDG for their guarantees and counter-guarantees will find this Guide an indispensable companion. With its clear and comprehensive commentary on the rules and the accompanying model forms, this Guide provides the key to a successful guarantee practice in all sectors and jurisdictions. In the Guide, the authors have put the essence of their experience in researching, practising and teaching the law and practice of demand guarantees over a period of twenty years.

They also share their experiences of the revision process leading to URDG 758, revealing the background of each policy choice and drafting decision they took while drafting the rules. Case studies throughout the Guide support and enliven the comprehensive analytical commentary on the rules.

The authors, respectively chairmen of the URDG 758 and the URDG 458 drafting groups, debunk the many myths about international guarantee practice and identify pitfalls to avoid. They track in detail the seven key stages of a URDG guarantee’s lifecycle: Drafting, Issuance, Changing of terms, Making a presentation, Examining the presentation, Making payment and Termination of the guarantee and counter-guarantee. Combining a practical approach and substantial research, the Guide meets the expectation of bankers, traders, lawyers and academics.

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by Dr Georges Affaki and Sir Roy Goode

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Preface

About URDG 758. The new URDG 758 succeed URDG 458. Over 18 years of practice (1992-2010), URDG 458 proved to be both successful and reliable. They were used by banks and businesses across continents and industry sectors. URDG 458 were endorsed by international organisations, multilateral financial institutions, bank regulators, lawmakers and professional federations. Their conciseness and clarity were unanimously appreciated. In contrast to the failed Uniform Rules for Contract Guarantees (URCG 325), URDG 458 reflected the reality of the international demand guarantee market and struck the most reasonable balance between the interests of all of the parties involved. By choosing to instruct a guarantor to issue a URDG guarantee (as opposed to an accessory suretyship), applicants renounced their ability to obstruct payment for reasons derived from their relationship with the beneficiary. In turn, beneficiaries were expected to state in general terms – but not to justify, establish or prove – the nature of the applicant’s breach in the performance of the underlying relationship. Finally, because a demand guarantee is an independent undertaking, guarantors were assured that their commitment was subject to its own terms. They were insulated from the performance contingencies of the underlying relationship and were confined to document checking only. Their incremental use, backed by the support of ICC, enabled URDG 458 to make a critical contribution towards levelling the playing field among demand guarantee issuers and users regardless of the legal, economic or social system in which they operate. For that, the ICC members who foresaw the need for a separate set of rules for independent guarantees in the early 1980s and had the leadership and the vision to steer URDG 458 towards successful finalisation and implementation deserve credit.

The need for a change. Yet URDG 458 were the first attempt by ICC to codify independent guarantee practice. Over the years, the application of their provisions shed light on the need for various drafting adjustments, clarifications, expansion of scope or corrections of the adopted standard. Views reported to the ICC Task Force on Guarantees¹ from URDG users worldwide provided the necessary material to launch a revision of URDG 458 necessitated by the lapse of time and the evolution of practice. The revision was launched in 2007 and was conducted under the aegis of both the ICC Banking Commission and the ICC Commission on Commercial Law and Practice (CLP).

The ICC Task Force on Guarantees, the standing expert body created by ICC in 2003 to monitor international guarantee practice, acted as a consultative body to the Drafting Group that produced five comprehensive drafts during the two-and-a-half-year revision process. Each draft was submitted for review and comments to ICC national committees. Over 600 sets of comments were received from a total of 52 different countries and were thoroughly examined. These comments were instrumental in shaping the new rules. Regular progress reports were presented to meetings of each of the ICC commissions considering the rules and were comprehensively debated. This method ensured that views would be received from a broad cross-sector of concerned parties.

The resulting URDG 758 were adopted unanimously by the ICC Executive Board at its meeting in New Delhi on 3 December 2009, following their endorsement by the members of the two sponsoring ICC Commissions. They came into force on 1 July 2010, whereupon a considerable number of demand guarantees and counter-guarantees started being issued all over the world subject to the new URDG 758. The percentage of guarantees subject to URDG 758 compared to those subject to URDG 458, or to no rules at all, is increasing by the day and at a very satisfactory rate.

The new URDG 758 do not merely update URDG 458; they are the result of an ambitious process that seeks to bring a new set of rules for demand guarantees into the 21st century: rules that are clearer, more precise and more comprehensive.

This Guide. Users and issuers of demand guarantees and counter-guarantees, as well as their advisers, will find in this Guide an indispensable companion to URDG 758. With the rules and the model forms, this Guide forms the triptych on which a successful guarantee practice can be built. In its pages, we have put the essence of our experience in researching, practising and teaching the law and practice of demand guarantees over a period of twenty years. We also share our experiences of the two-and-a-half-year revision process leading to the new URDG 758, revealing the background of each policy choice and drafting decision that we took while drafting the new rules. Practical examples throughout the Guide support and enliven our analytical commentary on the rules. The Guide is divided into five chapters:

- Chapter 1 presents an overview of the world of demand guarantees and counter-guarantees. It explains the fundamental principles of demand guarantees and the differences from documentary credits, indemnities or accessory suretyships.

- Following a prologue tracing the road to URDG 758 and presenting a table comparing the key aspects of URDG 758 and URDG 458, Chapter 2 provides an overview of URDG 758. It presents, in a nutshell, the main features of the rules, their scope and the advantages they offer to each party involved in the guarantee structure. It also answers frequently asked questions about the nature of the URDG and their relationship with the applicable law.

- Divided into eight parts, Chapter 3 tracks the seven key stages of the lifecycle of a typical URDG guarantee and counter-guarantee: drafting, issue, changing of terms, making a presentation, examining the presentation, making payment and termination of the guarantee and counter-guarantee. The eighth part deals with the relationship between the instructing party and the guarantor. Each part details the particular rules of URDG 758 that apply to the selected situation and offers practical advice on how to make the most of the rules.

- Chapter 4 offers an article-by-article commentary on URDG 758. The commentary under each article is supported by illustrative case studies. We also present in this chapter insights from the revision process and the preparatory works that led to the final draft. Experience shows that those insights are particularly helpful, for example in litigation and academic research, to understand the drafting choices that underlie each rule as ultimately adopted.
Preface

Chapter 5 provides an overview of the URDG in the world, including a presentation of the use of the URDG by international organisations, a comparison between URDG 758 and UCP 600, ISP98 and the UN Convention on Independent Guarantees and Stand-by Letters of Credit, all of which are also capable of applying to demand guarantees. It also features a selection of international case law from courts in six jurisdictions that have applied the URDG.

Each chapter is designed to stand on its own, thus offering a comprehensive overview of the topic without obliging users to consult other chapters in order to understand its substance. This is particularly the case with regard to Chapters 3 and 4. Chapter 3 presents a comprehensive overview of the URDG from an operational standpoint, while Chapter 4 allows readers to explore the interpretation of a particular article of the rules. This necessarily involves some repetition, but on balance we believe that offering readers two parallel ways to make the most of this Guide is the better choice. This also reflects the preference expressed by prospective users of URDG 758 during the numerous seminars that the authors conducted on the new rules.

Finally, we have furnished a detailed index which will enable the reader to pinpoint the places where a particular issue is discussed.

Acknowledgements. We would like to express our deep appreciation to the members of the ICC Task Force on Guarantees, the ICC national committees and members of both the Banking Commission and the Commission on Commercial Law and Practice for their guidance and support in the revision of the URDG. Our colleagues in the Drafting Group and partners in the drafting of URDG 758 – Roger Carouge, Andrea Hauptmann, Glenn Ransier, Pradeep Taneja and Farideh Tazhibi – have enriched this work with their substantial experience and helpful reflections. We are particularly indebted to Andrea, who meticulously read the entire typescript and made a substantial number of helpful comments. Stéphanie Lévi of BNP Paribas has thoroughly edited this Guide and offered invaluable comments, as well as preparing a preliminary draft of the index.

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We take great pleasure in presenting to the world this Guide as the successor to our previously separately published Guide and Handbook2. We hope our readers find in this Guide the support they seek for their URDG guarantee practice and enjoy reading it as much as we have enjoyed drafting it together.

Georges Affaki and Roy Goode

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CHAPTER 1
Demand guarantees and counter-guarantees in a nutshell
1.1 What is a demand guarantee?
1.2 Types of guarantees
1.3 No proof of breach
1.4 Fraud
1.5 Documents
1.6 Non-documentary conditions
1.7 Independence of guarantee
1.8 Demand guarantees distinguished from suretyships
1.9 Demand guarantees distinguished from indemnities
1.10 Demand guarantees distinguished from documentary credits
1.11 Demand guarantees distinguished from standby letters of credit
1.12 Multi-party guarantees; syndicated guarantees
1.13 Two-party guarantees
1.14 Guarantees not issued in connection with an underlying contract
1.15 What is a counter-guarantee?
1.16 Structure of a counter-guarantee
1.17 Independence of a counter-guarantee
1.18 Is there a claim available to the beneficiary against the counter-guarantor?
1.19 Is there a claim available to the applicant against the guarantor, and reciprocally, in an indirect guarantee?

PROLOGUE
The road to URDG 758
1 Why the URDG?
2 A brief history of the revision
3 URDG 758 and URDG 458 compared
CHAPTER 2
The URDG in a nutshell
2.1 What are the URDG?
2.2 Are there conditions for the URDG to apply to a guarantee?
2.3 How do the URDG apply?
2.4 The URDG and the law
2.5 Using the URDG 758: advantages to all parties
2.6 The scope of the URDG 758: what’s in – what’s out
2.7 Other questions on the scope of the URDG

CHAPTER 3
The URDG 758 in operation
3.1 Drafting a URDG guarantee
3.2 Issuing a URDG guarantee
3.3 Changing the terms of a URDG guarantee
3.4 Making a presentation
3.5 Examining a presentation
3.6 Making payment
3.7 Termination of the guarantee
3.8 The relationship with the instructing party

CHAPTER 4
A commentary on URDG 758
Article 1 Application of URDG
Article 2 Definitions
Article 3 Interpretation
Article 4 Issue and effectiveness
Article 5 Independence of guarantee and counter-guarantee
Article 6 Documents v. goods, services or performance
Article 7 Non-documentary conditions
Article 8 Content of instructions and guarantees
Article 9 Application not taken up
Article 10 Advising of guarantee or amendment
Article 11 Amendments
Article 12 Extent of guarantor’s liability under guarantee
Article 13 Variation of amount of guarantee
Article 14 Presentation
Article 15 Requirements for demand
Article 16 Information about demand
Article 17 Partial demand and multiple demands; amount of demands
Table of contents

Article 18  Separateness of each demand
Article 19  Examination
Article 20  Time for examination of demand; payment
Article 21  Currency of payment
Article 22  Transmission of copies of complying demand
Article 23  Extend or pay
Article 24  Non-complying demand, waiver and notice
Article 25  Reduction and termination
Article 26  Force majeure
Article 27  Disclaimer on effectiveness of documents
Article 28  Disclaimer on transmission and translation
Article 29  Disclaimer for acts of another party
Article 30  Limits on exemption from liability
Article 31  Indemnity for foreign laws and usages
Article 32  Liability for charges
Article 33  Transfer of guarantee and assignment of proceeds
Article 34  Governing law
Article 35  Jurisdiction

CHAPTER 5
The URDG in the world
5.1  The URDG in various languages
5.2  The URDG and other ICC Rules
5.3  The URDG and the UN Convention
5.4  The URDG as a model for national laws
5.5  The URDG as a model for other organisations’ standard guarantee forms
5.6  The URDG in the courts

APPENDICES
Appendix 1  ICC Uniform Rules for Demand Guarantees (URDG 758) and Model Forms
Appendix 2  The Business Case for the Revision of URDG
Appendix 3  ICC Policy Statement on Originals
Appendix 4  DOCDEX Rules
# TABLE OF CONTENTS

## PREFACE

## CHAPTER 1

### Demand guarantees and counter-guarantees in a nutshell

1.1 What is a demand guarantee?  
1.2 Types of guarantees  
1.3 No proof of breach  
1.4 Fraud  
1.5 Documents  
1.6 Non-documentary conditions  
1.7 Independence of guarantee  
1.8 Demand guarantees distinguished from suretyships  
1.9 Demand guarantees distinguished from indemnities  
1.10 Demand guarantees distinguished from documentary credits  
1.11 Demand guarantees distinguished from standby letters of credit  
1.12 Multi-party guarantees; syndicated guarantees  
1.13 Two-party guarantees  
1.14 Guarantees not issued in connection with an underlying contract  
1.15 What is a counter-guarantee?  
1.16 Structure of a counter-guarantee  
1.17 Independence of a counter-guarantee  
1.18 Is there a claim available to the beneficiary against the counter-guarantor?  
1.19 Is there a claim available to the applicant against the guarantor, and reciprocally, in an indirect guarantee?  

## PROLOGUE

### The road to URDG 758

1 Why the URDG?  
1.1 In the beginning… a void  
1.2 The URCG  
1.3 The URDG 458  
1.4 Beneficiary to state, but not prove, the breach  
1.5 Applicant to renounce defences derived from underlying relationship  
1.6 Guarantor’s independent and documentary role  
2 A brief history of the revision  
2.1 The revision process  
3 URDG 758 and URDG 458 compared
### CHAPTER 2

#### The URDG in a nutshell

**2.1 What are the URDG?**

- **2.1.1** The URDG are a set of contractual rules that apply to demand guarantees and counter-guarantees
- **2.1.2** The URDG are the only contractual rules devoted to demand guarantees and counter-guarantees
- **2.1.3** The URDG are neither a law nor an international treaty

**2.2 Are there conditions for the URDG to apply to a guarantee?**

**2.3 How do the URDG apply?**

- **2.3.1** Application by express contractual incorporation
- **2.3.2** Application of the URDG absent express incorporation
  - (1) Application of the URDG in asymmetrical indirect guarantees
  - (2) Application of the URDG as a trade usage or as a result of a consistent course of dealing
- **2.3.4** ICC lists of adherence
- **2.3.5** Can the URDG apply to guarantees or counter-guarantees that involve terms not covered in the rules?

**2.4 The URDG and the law**

- **2.4.1** Does the inclusion of a governing law clause in the guarantee conflict with a reference to the URDG in that guarantee?
- **2.4.2** Is there a law banning the URDG?

**2.5 Using the URDG 758: advantages to all parties**

- **2.5.1** Advantages to the beneficiary of using the URDG
- **2.5.2** Advantages to the guarantor and counter-guarantor of using the URDG
- **2.5.3** Advantages to the applicant of using the URDG
  - (1) A streamlined negotiation environment
  - (2) New rights for the applicant

**2.6 The scope of the URDG 758: what’s in – what’s out**

**2.7 Other questions on the scope of the URDG**

- **2.7.1** Counter-guarantees and the URDG
- **2.7.2** Two-party and multi-party guarantees and the URDG
- **2.7.3** Domestic guarantees and the URDG
- **2.7.4** Non-bank guarantees and the URDG
- **2.7.5** Separate capacity of branches
2.7.6 Standby letters of credit and the URDG
2.7.7 Electronic guarantees and the URDG

CHAPTER 3
The URDG 758 in operation

3.1 Drafting a URDG guarantee
3.1.1 How to draft a URDG guarantee
   (1) A URDG guarantee or counter-guarantee need NOT state
   (2) A URDG guarantee or counter-guarantee needs to state
   (3) A URDG guarantee or counter-guarantee might state
   (4) Article 8 and the model guarantee and counter-guarantee forms
   (5) The three golden rules of drafting a URDG guarantee and counter-guarantee

3.2 Issuing a URDG guarantee
3.2.1 Guarantee and counter-guarantee issued
   (1) When is a guarantee issued?
   (2) The control test deconstructed
   (3) Contractual variations
   (4) When is an electronic guarantee issued?
   (5) Conflict of dates – the SWIFT case
   (6) Counter-guarantees issued
   (7) Irrevocability
   (8) No need for beneficiary to accept or reject guarantee
   (9) When demand may be presented

3.2.2 Application not taken up
3.2.3 Advising of guarantee
   (1) Responsibility of the advising party to the beneficiary
      (A) Apparent authenticity of the guarantee
      (B) Advice accurately reflects the guarantee as received
   (2) Responsibility of the second advising party
   (3) No further representation or undertaking
   (4) Party unable or unwilling to advise
   (5) Party unable to satisfy itself as to apparent authenticity
   (6) Same party to advise amendments

3.2.4 Exemption from liability – loss, delay or error in transmission
3.2.5 Exemption from liability – errors in translation and transmission without translation
3.2.6 Exemption from liability for acts of another party
3.2.7 Exemption from liability conditional upon acting in good faith
3.2.8 Charges
(1) Liability for the charges of a party instructed to perform services 79
(2) Liability where charges cannot be collected 80
(3) Issue of guarantee not to be conditional on payment of charges 80

3.3 Changing the terms of a URDG guarantee 80
3.3.1 Amendments generally 81
(1) Amendment binds guarantor from time of issue 81
(2) Amendment of no effect if guarantee has expired 81
(3) Beneficiary not bound by amendment made without its agreement 81
(4) No obligation on the beneficiary to expressly accept or reject amendment 82
(5) No exception for amendments benefiting the beneficiary 82
(6) Guarantor to be informed of rejection 83
(7) Effect of beneficiary’s rejection 83
(8) Loss of right to reject amendment 83
(9) Accepting the amendment by making a presentation that complies only with the amendment 83
   (A) Amendment varying the guarantee amount 84
   (B) Amendment extending the validity period 84
(10) Article 11(c) v. article 19(b) 84
(11) Successive amendments 84
(12) Rejection of non-conforming demand not cured by subsequent amendment 84
(13) Advising party’s duty to notify an amendment 85
(14) No partial acceptance 85
(15) No acceptance by silence 85
(16) No rejection by silence 85
(17) Amendment may not be used to effect transfer 86
3.3.2 Specific amendments: varying the amount 86
(1) Reduction clause 86
(2) Increase of amount clause 87
3.3.3 Specific amendments: changing the identity of the beneficiary 88
(1) Nature of transferable guarantee 89
(2) Risks where transfer uncontrolled 89
   (A) Guarantee must state that it is “transferable” 89
   (B) Guarantor’s separate assent to transfer 90
      (i) Why the requirement for a separate assent to transfer?
(ii) Who should agree to transfer? 90
(iii) When should the transfer be agreed? 91
(C) Guarantee to be transferred only when underlying relationship transferred 91
(3) Transferor to pay all charges 91
(4) Amendments and transfers 92
(5) Demand and supporting statement 92
(6) Other documents 92
(7) Partial transfers and multiple transfers 92
(8) Assignment of proceeds as distinguished from transfer 93

3.4 Making a presentation 93
3.4.1 Making a presentation 94
(1) Presentation – presenter 94
(2) Applicant as presenter 94
(3) No interchangeability of applicant and beneficiary as presenter 94
(4) Presentation to guarantor only 95
(5) Presenter other than beneficiary or applicant 95
(6) Place of presentation 95
(7) Time of presentation 95
   (A) Expiry date 95
   (B) Expiry event 96
   (C) Time of presentation or determination, not time of event; deferred expiry 96
3.4.2 Incomplete presentation 96
3.4.3 Incomplete demand 97
(1) No notice of completion required 97
(2) Guarantee requiring electronic presentation 97
   (A) Format 97
      (i) Format not specified 98
      (ii) Any electronic format or paper form 98
      (iii) Authenticate does not mean read 98
      (iv) Format and form 99
   (B) System for data delivery and electronic address 99
(3) Paper presentation where mode of delivery is specified 99
(4) Form of presentation not specified 100
(5) Linkage 100
(6) Whose duty is it to identify the guarantee? 100
(7) Language of presented documents 101
(8) Article 14 also applicable to counter-guarantees 101
3.4.4 Requirements for demand

(1) “Demand” 101
(2) Guarantees requiring no demand 101
(3) Hold for value 102
(4) Supporting documents 102
(5) Statement of breach (“supporting statement”)
   (A) Statement required in any event, unless excluded 103
   (B) “The respect in which” 104
   (C) A streamlined drafting of the statement of breach compared to URDG 458 104
   (D) Statement can be presented separately from and later than demand 105
   (E) Incomplete demand and subsequent statement 105
   (F) Going beyond the statement content required in article 15(a) 105
   (G) Demand under counter-guarantee 106
   (H) Exclusion or modification of requirement for a supporting statement 107
      (i) Modifying the wording of the supporting statement 107
      (ii) Exclusion of supporting statement is not exclusion of demand or documents 108
(6) Dating of demand 108

3.4.5 Information about demand

(1) Duty of information about demand 109
(2) An acknowledged practice 109
(3) Who must be informed? 110
(4) No duty of information about demand before payment 110
(5) Interaction of information and payment/rejection of demand – without delay 111
(6) Information duty and waiver process 112
(7) Information about demand under articles 16 and 23 112
(8) Sanction for absence of information 112

3.4.6 Partial demand and multiple demands

(1) Partial demand 112
(2) Multiple demands 113
(3) Rejection of demand 113

3.4.7 Separateness of each demand

(1) Presentation of non-complying demand; withdrawal of demand 113
(2) Payment of non-complying demand 114
3.5 Examining a presentation

3.5.1 Definition of “complying presentation” 115
   (1) A strict hierarchy of the standards of examination 115
   (2) International standard demand guarantee practice 115

3.5.2 Non-documentary conditions 118
   (1) What is a non-documentary condition? 118
   (2) Presentation “to the guarantor” 119
   (3) Presentation of specified document 119
   (4) Guarantor’s own records 119
   (5) Index specified in the guarantee 119
   (6) Disregard of non-documentary condition 119
   (7) Only documents specified in the guarantee need to be examined 120
   (8) Guarantor advising instructing party of article 7 121
   (9) No contradiction between the first and the second sentence of article 7 121

3.5.3 Complying demands and excessive demands 122

3.5.4 Examination 122
   (1) Examination of presentation for apparent compliance 122
   (2) Exceptions to the “presentation only” rule 123
   (3) Standard of care of examination 124
   (4) The principle of strict compliance 124
   (5) Examination of data in context 124
   (6) Data not to conflict with other data in the presented document, other required documents or the guarantee 125
   (7) Consistency of data with non-documentary conditions 126
   (8) Guarantee not containing stipulations as to signature or data content 126
   (9) Disregarding documents not specified in the guarantee 127
   (10) Guarantor not required to recalculate beneficiary’s calculations 127
   (11) Requirement for a document to be legalised, etc. 128
   (12) Stamp in foreign language 128

3.5.5 Time for examination of a demand 128
   (1) Time for examination 128
   (2) Business day at place for presentation 129
   (3) No extension of validity period 129
   (4) Deferment of running of time for examination 129
   (5) Suspension of running of time for examination 130

3.5.6 Non-complying demand, waiver and notice 130
   (1) Determination that a demand under a guarantee is non-complying 130
(2) Waiver or amendment? 130
(3) No payment under reserve or indemnity 131
(4) Determination that a demand under a counter-guarantee is non-complying 132
(5) No extension of time for examination 132
(6) No dispensation from article 16 in case of rejection 132
(7) The guarantor’s decision to waive or reject 132
(8) Why the strict rule for the notice of rejection? 133
(9) The content of the notice of rejection 133
   (A) The guarantor rejects the demand 133
   (B) Specification of each discrepancy 134
(10) To whom should the notice be given? 134
(11) Departure from UCP 600 134
(12) Each demand is separate 135
(13) Time within which the notice of rejection is to be sent 135
(14) The UCP 600 model 135
(15) The preclusion rule 136
(16) Preclusion rule is inoperative if guarantee expires during examination period 136
(17) Return of documents 136
(18) Guarantor includes counter-guarantor 137
3.5.7 Disclaimer on effectiveness of documents 137

3.6 Making payment 138

3.6.1 Payment 138
   (1) Complying demand to be paid 138
   (2) Place for payment 139
   (3) No duty to pay other than at the place for payment 139

3.6.2 Transmission of copies of complying demands 140
   (1) Transmission duty 140
   (2) Duty applies only to complying demands 141
   (3) Counter-guarantor’s transmission duty 141
   (4) Is there an information duty in addition to, or instead of, a transmission duty? 142
   (5) Mode of transmission 142
   (6) Risk of loss or delay in transmission 142
   (7) Payment or reimbursement not to be withheld pending transmission 142

3.6.3 Assignment of proceeds 143
   (1) Assignment of proceeds distinguished from transfer 143
   (2) “Subject to the applicable law” 143
(3) Agreement of guarantor necessary for effectiveness of assignment
(4) Notification; acknowledgement; agreement
(5) Priority between competing assignees and other claimants

3.6.4 Currency of payment
(1) Primary rule: payment to be made in the agreed currency
(2) Exceptions to the primary rule
(3) Limits to the scope of the primary rule
(4) Why the currency of the place for payment?
(5) Choice of currency for reimbursement
(6) Rate of exchange

3.6.5 Extend or pay
(1) Extend or pay demands generally
(2) Variations on extend or pay demands
(3) Summary of the procedure in the case of a direct guarantee
(4) Summary of the procedure in the case of an indirect guarantee
(5) Demand must be complying demand
(6) Suspension distinguished from extension
(7) Guarantor’s option to suspend
(8) Calculation of the suspension period
(9) Transmission of demand duty under article 22
(10) Extend or pay demands under counter-guarantees
    (A) Calculation of the suspension period under the counter-guarantee
    (B) Information duty upon suspension and transmission of a complying demand
    (C) Counter-guarantor’s decision may be different from guarantor’s
(11) Information duty where guarantor suspends payment
(12) Article 23(c) v. article 16
(13) Process and time of suspension
(14) No information to the beneficiary is required
(15) Position of the parties during the suspension period
(16) Deemed withdrawal of demand
(17) Guarantor’s decision
(18) Guarantor’s discretion to refuse extension and pay
(19) Guarantor required to present a new demand under the counter-guarantee if it decides to pay under the guarantee
(20) No estoppel, waiver or preclusion limiting the guarantor’s choice 163
(21) Potential for different decisions under the guarantee and counter-guarantee 163
(22) Effect on the guarantor’s choice of the expiry of the guarantee during the suspension period 164
(23) Effect of unauthorised extension 164
  (A) Extension for period other than that requested or agreed 165
  (B) Information as to the decision to extend or pay 165
  (C) No liability for suspension 165
  (D) Other possible outcomes 166

3.7 Termination of the guarantee 166

3.7.1 Termination 167
  (1) No intrinsic value for the guarantee document 167
  (2) Changing URDG 458 167
  (3) Caveats to article 25(b) 168
  (4) Banning open-ended guarantees 168
  (5) Termination three years after issue 168
  (6) Contractual modifications to expiry 169
  (7) Legal characterisation of the three-year expiry period 170
  (8) Calculating the three-year expiry period 170
  (9) Expiry date falling on a non-business day 170
  (10) Information duty upon termination 171

3.7.2 Force majeure 171
  (1) An overview of article 26 171
  (2) Inadequacy of force majeure provisions in UCP and ISP 171
  (3) Force majeure according to article 26(a) 173
    (A) First condition: the force majeure event 173
    (B) Second condition: impact on the guarantor’s guarantee business 174
    (C) Third condition: preventing presentation, examination or payment because of expiry 175
  (4) Force majeure affecting presentation under the guarantee 176
  (5) Guarantor to inform counter-guarantor of force majeure and extension 176
  (6) Force majeure affecting examination under the guarantee 177
  (7) Resumption of business 178
  (8) Consequences of a permanent force majeure 178
  (9) Force majeure affecting payment under the guarantee 179
  (10) Force majeure affecting the counter-guarantor 180
(11) Instructing party bound by article 26
(12) Guarantor and counter-guarantor have no further liability

3.8 The relationship with the instructing party

3.8.1 Can the URDG control the relationship with the instructing party?
(1) Conditions for the application of article 1(c)
(2) Examples of the application of article 1(c)

3.8.2 Application not taken up

3.8.3 Indemnity for foreign laws and usages
(1) Foreign laws
(2) Foreign usages
(3) Mandatory laws
(4) Indemnity against obligations
(5) Indemnity against the overriding of the terms of the guarantee
(6) Effect of guarantor’s prior knowledge of foreign law or usage

3.8.4 Liability for charges
(1) Liability where charges cannot be collected
(2) Guarantee not to be made conditional on payment of charges

CHAPTER 4
A commentary on URDG 758

Article 1 Application of URDG
Article 2 Definitions
Article 3 Interpretation
Article 4 Issue and effectiveness
Article 5 Independence of guarantee and counter-guarantee
Article 6 Documents v. goods, services or performance
Article 7 Non-documentary conditions
Article 8 Content of instructions and guarantees
Article 9 Application not taken up
Article 10 Advising of guarantee or amendment
Article 11 Amendments
Article 12 Extent of guarantor’s liability under guarantee
Article 13 Variation of amount of guarantee
Article 14 Presentation
Article 15 Requirements for demand
<table>
<thead>
<tr>
<th>Article</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Article 16</td>
<td>Information about demand</td>
<td>305</td>
</tr>
<tr>
<td>Article 17</td>
<td>Partial demand and multiple demands; amount of demands</td>
<td>310</td>
</tr>
<tr>
<td>Article 18</td>
<td>Separateness of each demand</td>
<td>314</td>
</tr>
<tr>
<td>Article 19</td>
<td>Examination</td>
<td>316</td>
</tr>
<tr>
<td>Article 20</td>
<td>Time for examination of demand; payment</td>
<td>324</td>
</tr>
<tr>
<td>Article 21</td>
<td>Currency of payment</td>
<td>330</td>
</tr>
<tr>
<td>Article 22</td>
<td>Transmission of copies of complying demand</td>
<td>337</td>
</tr>
<tr>
<td>Article 23</td>
<td>Extend or pay</td>
<td>341</td>
</tr>
<tr>
<td>Article 24</td>
<td>Non-complying demand, waiver and notice</td>
<td>355</td>
</tr>
<tr>
<td>Article 25</td>
<td>Reduction and termination</td>
<td>364</td>
</tr>
<tr>
<td>Article 26</td>
<td>Force majeure</td>
<td>370</td>
</tr>
<tr>
<td>Article 27</td>
<td>Disclaimer on effectiveness of documents</td>
<td>378</td>
</tr>
<tr>
<td>Article 28</td>
<td>Disclaimer on transmission and translation</td>
<td>380</td>
</tr>
<tr>
<td>Article 29</td>
<td>Disclaimer for acts of another party</td>
<td>384</td>
</tr>
<tr>
<td>Article 30</td>
<td>Limits on exemption from liability</td>
<td>387</td>
</tr>
<tr>
<td>Article 31</td>
<td>Indemnity for foreign laws and usages</td>
<td>389</td>
</tr>
<tr>
<td>Article 32</td>
<td>Liability for charges</td>
<td>394</td>
</tr>
<tr>
<td>Article 33</td>
<td>Transfer of guarantee and assignment of proceeds</td>
<td>396</td>
</tr>
<tr>
<td>Article 34</td>
<td>Governing law</td>
<td>406</td>
</tr>
<tr>
<td>Article 35</td>
<td>Jurisdiction</td>
<td>411</td>
</tr>
</tbody>
</table>

**CHAPTER 5**

The URDG in the world

5.1 The URDG in various languages 415

5.2 The URDG and other ICC Rules 415

5.2.1 The UCP and demand guarantees 416
5.2.2 The URCB and demand guarantees 420
5.2.3 The URCG and demand guarantees 420
5.2.4 ISP98 and demand guarantees 420

(1) Similarities between URDG 758 and ISP98 421
(2) Differences between URDG 758 and ISP98 425

5.3 The URDG and the UN Convention 431

5.3.1 The interaction of the URDG with the UN Convention 431

(1) The provisions of the UN Convention and the URDG are compatible 432
(2) The URDG supersede the UN Convention 432
(3) The UN Convention supplements the URDG 433

5.4 The URDG as a model for national laws 434
5.5 The URDG as a model for other organisations’ standard guarantee forms

5.5.1 FIDIC

5.5.2 The World Bank

5.6 The URDG in the courts

5.6.1 Belgium


5.6.2 United Kingdom


(3) Court of Appeal (Civil Division), 3 October 2003, Manx Electricity Authority v. JP Morgan Chase Bank [2003] EWCA Civ 1324

5.6.3 France


(2) Court of Cassation, Commercial Section, 30 March 2010, Eurocopter v. Banque Melli Iran, Decision No. 375 F-PB, Petition No. S 09-12.701

(3) Court of Cassation, Commercial Section, 22 March 2011, Alstom Hydro Energia Brasil LTDA et al. v. Hydropastaza, Decision No. 289 F-D, Petition No. K 09-71.690

5.6.4 Kazakhstan

Supreme Court of Kazakhstan, 30 December 1998, Moscow Narodny Bank (Singapore) v. TuranAlemBank

5.6.5 People’s Republic of China (PRC)


5.6.6 Finland

Helsinki District Court, 1st Division, 25th March 2010, No. 10/10610, Case book No. 09/27536, District Court
## APPENDICES

Appendix 1  ICC Uniform Rules for Demand Guarantees (URDG 758) and Model Forms 456  
Appendix 2  The Business Case for the Revision of the URDG 480  
Appendix 3  ICC Policy Statement on Originals 487  
Appendix 4  DOCDEX Rules 491  

## TABLE OF DIAGRAMS

<table>
<thead>
<tr>
<th>Diagram</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Direct guarantee</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Confirmed documentary credit</td>
<td>10</td>
</tr>
<tr>
<td>3</td>
<td>Indirect guarantee</td>
<td>13</td>
</tr>
<tr>
<td>4</td>
<td>Extend or pay demands in direct guarantee</td>
<td>150</td>
</tr>
<tr>
<td>5</td>
<td>Extend or pay demands in indirect guarantee</td>
<td>152</td>
</tr>
<tr>
<td>6</td>
<td>Force majeure: article 26(b) (i)</td>
<td>177</td>
</tr>
<tr>
<td>7</td>
<td>Force majeure: article 26(b) (ii)</td>
<td>179</td>
</tr>
<tr>
<td>8</td>
<td>Force majeure: article 26(b) (iii)</td>
<td>180</td>
</tr>
<tr>
<td>9</td>
<td>Force majeure: article 26(c) (i)</td>
<td>181</td>
</tr>
<tr>
<td>10</td>
<td>Force majeure: article 26(c) (ii)</td>
<td>182</td>
</tr>
<tr>
<td>11</td>
<td>Force majeure: article 26(c) (iii)</td>
<td>182</td>
</tr>
<tr>
<td>12</td>
<td>A chain of counter-guarantees</td>
<td>215</td>
</tr>
</tbody>
</table>

Index 502