

## THE STATUS OF COMMERCIAL BANKS WORKING WITH INTERNATIONAL LETTERS OF CREDIT

*The author: Scientific researcher  
Abdikarimov Ziyodulla A'zamjon o'g'li*

*Master the Academy Banking and Finance of the Republic of Uzbekistan*

**Annotation:** *This article explains what letters of credit are and information about them, as well as what documents are needed to obtain letters of credit. It also shows how banks calculate letters of credit*

**Key Words:** *Letter of credit, documentary letter of credit, transaction costs, Collateral, revocable letter of credit, Covered (deposited) letter of credit*

Letter of credit is a money obligation of the bank assumed on the basis of the applicant's order (client-buyer) to pay a certain sum in the agreed currency in favor of the beneficiary (seller) after submitting the documents stipulated by the terms of the letter of credit within the specified period.

The implementation of operations in documentary letter of credit contribute to the expansion of foreign trade transactions of clients, increase cash flow, development and strengthening of trust relationships with foreign partners and their banks.

The main conditions of the deal:

- The total period of the letter of credit with the option of post-financing/discounting/delay of payment is not more than 360 days;
- The interest rate is negotiable;
- Collateral - real estate, motor vehicles, deposits, special equipment and other liquid property in accordance with the legislation;
- Mixed collateral is possible.
- Other transaction costs - according to the rates of the foreign bank.

This financial transaction provides a number of advantages in its implementation, such as:

- international legal reliability in the form of a payment instrument;
- a means of quality short-term financing;
- the ability to quickly make settlements with foreign suppliers;
- individuality in determining the terms of service and the organization of cooperation;
- guarantees of solvency and mutual settlements between the parties in the concluded transaction;
- protection against the risk of non-payment by the applicant (buyer) in favor of the beneficiary (seller)

Letter of credit is divided into the following types:

- revocable letter of credit - a letter of credit that can be revoked (cancelled) by the payer or the issuing bank. Revocable letters of credit are not used in international practice. (No longer in use; see Article 3 of the Uniform Customs and Practice for Documentary Credits, International Chamber of Commerce Publication No. 600, Rev. 2007);

- irrevocable letter of credit is a letter of credit that cannot be revoked.

- red letter of credit - the issuing bank gives the nominal bank the right to pre-pay a certain amount before presenting the sales documents. In those years when letters of credit were issued in the form of a bank letter, such a clause was highlighted in red in the document due to its special importance, hence the name. Currently, letters of credit are issued mainly for telecommunications, so this term should be considered as professional jargon;

- Covered (deposited) letter of credit is the transfer of the letter of credit (coverage) amount to the discretion of the issuing bank for the entire period of the paying or executing bank from the account of the given loan. Covered letter of credit is used for settlements in the territory of the Russian Federation. In international settlements, banks act in accordance with interbank agreements. According to them, the coverage should be either absent (pure credit line) or placed in agreed forms (deposits, securities or other assets);

unsecured (guaranteed) letter of credit is a letter of credit, after opening it, the issuing bank gives the executing bank the right to withdraw funds within the amount of the letter of credit from the representative account it maintains. Or, in agreement with the executing bank, they develop other conditions for returning the funds paid to the beneficiary. The terms "unopened" or "guaranteed" are not used in this process, as the vast majority of letters of credit are like this in international practice;

A documentary letter of credit is the obligation of the bank that opened the letter of credit (the issuing bank) on behalf of the buyer to pay the agreed amount to the seller, subject to the provision of the documents specified in the letter of credit to the seller.

The bank opens a letter of credit on the basis of instructions from the buyer (importer), drawn up in accordance with the terms of the contract. It is important for both the importer and the exporter of the goods to consider that letters of credit are a transaction separate from the sales contract or other agreements on which they are based. The obligations of the bank to execute the letter of credit are recorded in the text of the letter of credit itself.

The principle of operation of the documentary letter of credit

1. The exporter and the importer of the goods enter into an agreement.
2. The importer of goods applies for opening a letter of credit to the issuing bank.
3. The issuing bank issues a letter of credit for the advising bank. The advising bank makes an advising letter of credit for the exporter.
4. The exporter sends the goods to the importer, and the documents to the advising bank.

5. The advising bank sends the documents to the issuing bank.

6. The issuing bank makes the payment to the advising bank. The advising bank makes the payment to the exporter.

7. The issuing bank sends the documents to the customer - the importer of the goods.

Documentary operations

Import letters of credit

Preliminary advice of a letter of credit 210,000 sum

Opening of a letter of credit 0.5% of the amount, minimum 420,000 sums, maximum 8,500,000 sums

Increasing the amount of the letter of credit 0.25% of the amount of the increase, minimum 420,000 soums, maximum 2,100,000 sums

Other changes in the terms of the letter of credit 210,000 sums

Verification of documents under letter of credit 210,000 sums

Payment under a letter of credit (charged if, in accordance with the terms of the letter of credit, PJSCB Orient Finans is a performing bank) 0.25% of the amount, minimum 80,000 soums, maximum 4,200,000 soums

Commission for discrepancies in the documents 50 USD (charged from the representing party) for each document

Conducting additional correspondence with foreign banks on the initiative and according to the client's request. 84,000 sums are charged for each request + commission of a foreign bank

Risk premium

With the provision of coverage in the currency of the letter of credit 0.25% of the amount, a minimum of 125,000 soums, a maximum of 4,200,000 sums

Uncovered By agreement

Export Letters of Credit

Preliminary advising a letter of credit 125,000 sums

Advising a letter of credit 250,000 sums

Advising of changes in terms of a letter of credit 105,000 sums

Confirmation of the letter of credit

With coverage 0.5% of the amount, a minimum of 315,000 sums, a maximum of 2,100,000 sums

Uncovered By agreement

Payment under a letter of credit (charged if, in accordance with the terms of the letter of credit, PJSCB Orient Finans is a performing bank) 0.1% of the amount, a minimum of 105,000 soums, a maximum of 420,000 sums

Commission for discrepancies in documents (charged if, in accordance with the terms of the letter of credit, Oriental Finans PJSCB is the executing bank) 90,000 sums

Verification of documents under letter of credit

If Orient Finans PJSCB is a performing bank	125,000 sums
If Orient Finans PJSCB is not a performing bank	80,000 sums
Negotiation and discounting on request	By agreement
Conducting additional correspondence with foreign banks on the initiative and according to the client's request	85,000 soums are charged for each request + commission of a foreign bank
Inkasso	
Issuance of documents against payment and / or acceptance of a bill	105,000 sums
Payment for collection	0.2% of the amount, minimum 40,000 sums, maximum 4,200,000 sums
Return of unpaid documents	80,000 sums
Change of conditions or cancellation of collection	80,000 sums

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