



## THE ROLE AND SIGNIFICANCE OF INTERNATIONAL COLLECTION AND LETTER OF CREDIT SETTLEMENTS IN THE REGULATION OF FOREIGN ECONOMIC TRANSACTIONS

**Imamova Dilduza Ismailovna**

Candidate of Legal Sciences, Professor, Professor of the Department of Civil Law and International Private Law disciplines

University of World Economy and Diplomacy

ORCID: 0009-0007-1191-6312

e-mail: imamova@uwed.uz

<https://doi.org/10.5281/zenodo.18240859>

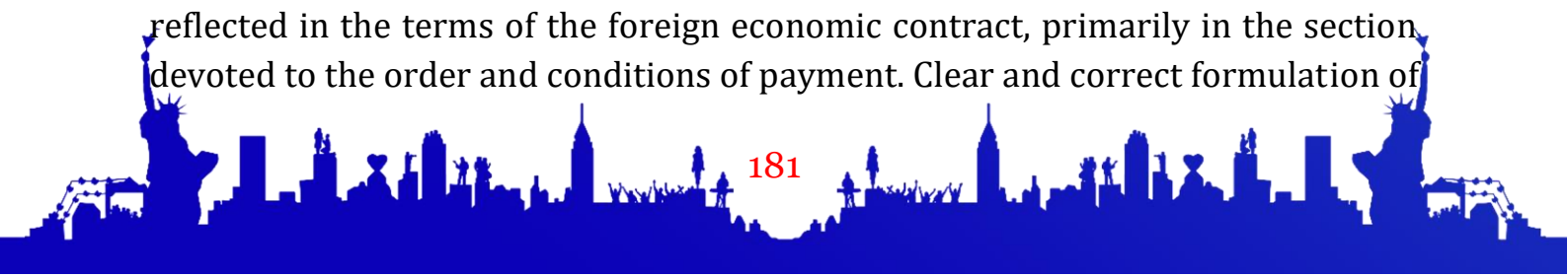
**Annotation.** The article provides a comprehensive analysis of international settlements by collection and documentary credit in the legal regulation of foreign economic transactions. Particular attention is paid to the issues of unification of legal regulation, application of the Uniform Rules of the International Chamber of Commerce, as well as conflict of laws aspects of determining the applicable law. It analyses practical problems and risks arising in the implementation of international settlements, as well as prospects for improving the national legislation of the Republic of Uzbekistan, taking into account international standards and modern trends in the digitalisation of trade.

**Keywords:** foreign economic transactions, international settlements, collection, documentary letter of credit, UCP, letter of credit, applicable law.

In the current conditions of international trade development, the procedure for settling foreign economic transactions is largely determined by the use of such forms of international settlements as collection and letters of credit. These forms of settlement are essential tools for ensuring the fulfilment of monetary obligations between exporters and importers and contribute to reducing commercial and currency risks in cross-border transactions.

International settlements are an integral part of foreign economic transactions, as they ensure the fulfilment of the financial obligations of the parties regardless of differences in national legal systems. The use of banking mechanisms achieves a balance between the interests of the seller and the buyer, increases the level of trust between counterparties, and ensures the stability of international trade turnover and the predictability of the fulfilment of contractual obligations.

The most common forms of international settlements in foreign economic practice are collection and documentary letters of credit. Their choice is usually reflected in the terms of the foreign economic contract, primarily in the section devoted to the order and conditions of payment. Clear and correct formulation of





these terms is of fundamental importance, since errors or inaccuracies in determining the form of settlement often cause disputes between the parties.

Collection is traditionally considered one of the simplest and most economical forms of international settlement. It does not require significant bank expenses and is widely used in contractual practice. The essence of collection is that the bank, on behalf of its client, receives payment or acceptance of a payment document from the payer in exchange for the transfer of the relevant documents and transfers the funds received to the payee.

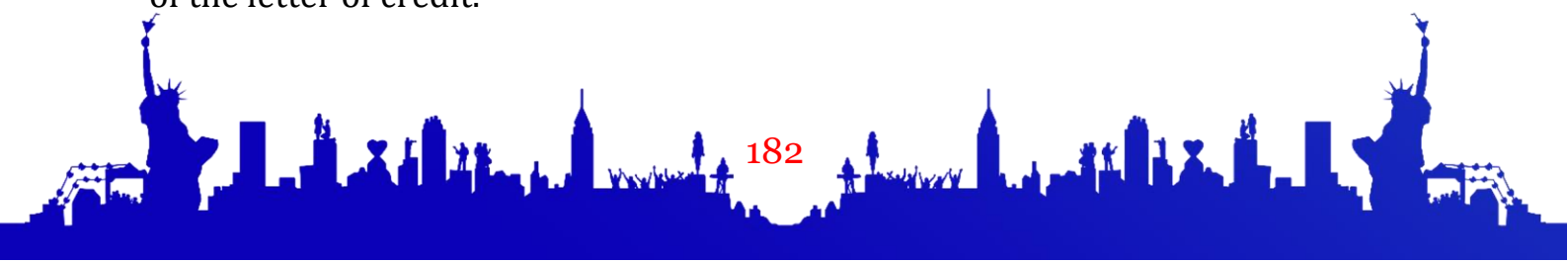
According to the Uniform Rules for Collections of the International Chamber of Commerce (URC 522), collection is an operation carried out by banks on the basis of instructions received with financial and/or commercial documents for the purpose of obtaining payment, acceptance or transfer of documents on other terms.

Depending on the composition of the documents, a distinction is made between clean and documentary collection. In clean collection, the object of the transaction is exclusively financial documents, whereas in documentary collection, payment or acceptance is made against the transfer of commercial documents confirming the fulfilment of contractual obligations. In the practice of foreign economic transactions, documentary collection has become the most widespread.

Depending on the terms of document transfer, there are such forms as “documents against payment” (D/P) and “documents against acceptance” (D/A). In the first case, the transfer of documents is carried out only after immediate payment, in the second – after acceptance of the payment obligation with a deferred payment. These forms allow the importer to verify the fact of shipment of goods, and the exporter to retain control over the documents until payment or acceptance is received.

Despite certain advantages, collection does not provide the payee with a full bank guarantee, as payment is made only with the consent of the payer. This circumstance limits the use of collection in transactions with an increased level of commercial risk.

Compared to collection, a letter of credit is a more complex but at the same time more reliable form of international settlement. A letter of credit provides a high level of protection for the interests of the parties, as payment is made by the bank on condition that the documents presented strictly comply with the terms of the letter of credit.





A documentary letter of credit is an independent obligation of the issuing bank to make payment to the beneficiary subject to compliance with the established conditions. At the same time, the obligations under the letter of credit are legally separated from the main purchase and sale agreement, which is one of the fundamental principles of letter of credit settlements.

International practice in letter of credit settlements is largely standardised thanks to the Uniform Customs and Practice for Documentary Credits (UCP) developed by the International Chamber of Commerce. The current version, UCP 600, applies if the parties have expressly specified its use in the text of the contract.

Depending on the legal structure and terms of execution, letters of credit are divided into different types: revocable and irrevocable, confirmed and unconfirmed, covered and uncovered, transferable and non-transferable, renewable and non-renewable, standby and other. The most widespread in international trade is the irrevocable confirmed documentary letter of credit, which provides the maximum level of bank protection for the exporter's interests.

Of particular importance is the standby letter of credit, which is similar in its economic function to a bank guarantee and is used as an instrument to ensure the fulfilment of obligations. In international practice, standby letters of credit are regulated by the UN Convention on Independent Guarantees and Standby Letters of Credit.

Conflict of laws issues related to determining the applicable law and jurisdiction remain a significant problem in regulating international collections and letters of credit. In the absence of a universal international treaty governing these forms of payment, the applicable law is determined either by agreement between the parties or on the basis of the conflict of laws rules of national legislation.

As a rule, parties to foreign economic transactions include a clause in the contract on the application of the Incoterms, which minimises legal uncertainty. However, such rules are non-governmental in nature and apply only with the direct consent of the parties, which does not exclude the need to refer to national law in matters not regulated by the Incoterms.

It is particularly difficult to determine the applicable law to the bank's obligations, especially in situations where the issuing bank, the confirming bank and the beneficiary are located in different countries. In such cases, law enforcement practice often proceeds from the application of the law of the





country of the issuing bank or the law most closely related to the letter of credit obligation.

In practice, a significant number of disputes arising from letter of credit and collection transactions are related to the non-compliance of the documents submitted with the terms of the letter of credit, failure to meet the deadlines for their submission, and different interpretations of the formal requirements for the documents.

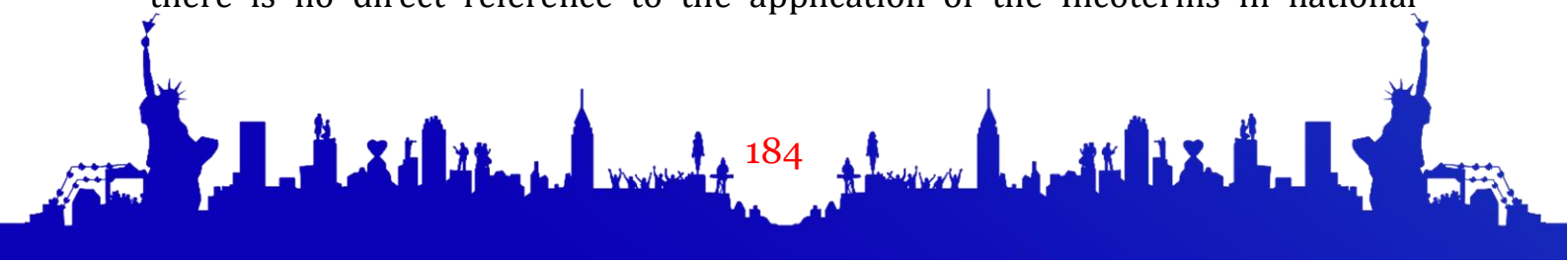
Letter of credit settlements are characterised by the principle of strict compliance, according to which the bank assesses only the formal compliance of the documents with the terms of the letter of credit, without delving into the actual circumstances of the contract's performance. Even minor discrepancies can serve as grounds for refusal of payment, which requires participants in foreign economic transactions to be particularly careful when formulating the terms of a letter of credit.

Disputes related to the payer's refusal to accept or pay, as well as delays in the transfer of documents, are typical in collection operations. In such cases, the exporter bears an increased risk, since the bank does not guarantee receipt of payment.

It should be noted that there is currently no single international legal agreement that comprehensively regulates collections and letters of credit. Unification in this area is mainly achieved through non-governmental regulations, primarily the acts of the International Chamber of Commerce (URC 522, UCP 600, URR 725).

The national legislation of individual states approaches the legal nature of letters of credit in different ways. In the United States, for example, letters of credit are regulated in detail in the Uniform Commercial Code (UCC), which is recognised by the courts as an important source of commercial practice. In a number of European countries, letters of credit are classified as agency agreements or as special bank transfers, which indicates that there is no uniform approach to their legal nature.

In the Republic of Uzbekistan, there is no specific regulatory act devoted to international settlements by collection and letter of credit. General provisions on these forms of settlement are enshrined in the Civil Code of the Republic of Uzbekistan, as well as in subordinate acts of the Central Bank. At the same time, there is no direct reference to the application of the Incoterms in national





regulation, which in practice is compensated for by recourse to non-state regulation.

In this regard, it seems appropriate to further develop the national regulatory framework, taking into account international standards, including a clearer definition of the legal nature of letters of credit and collection, as well as recognition of the possibility of direct application of the Incoterms in the presence of a relevant agreement between the parties. This will contribute to greater legal certainty and strengthen the confidence of foreign counterparties in the Uzbek jurisdiction.

The development of information and communication technologies has led to the emergence of electronic letters of credit, combining traditional letter of credit settlement mechanisms with the capabilities of electronic document management. In addition to UCP 600, the International Chamber of Commerce has developed eUCP rules governing the electronic presentation of documents.

At the same time, the use of electronic letters of credit requires reliable technical platforms and legal recognition of electronic documents and electronic signatures.

Collection and letters of credit play a key role in the legal regulation of settlements for foreign economic transactions. The choice of a specific form of settlement depends on the level of trust between the parties, the nature of the transaction, the degree of commercial risk and economic expediency.

Correct and detailed stipulation of the terms of settlement in the contract, including reference to the applicable Uniform Rules of the International Chamber of Commerce, ensures legal certainty, reduces the risk of disputes and guarantees proper performance of obligations. In the context of globalisation and digitalisation of international trade, the importance of unified and flexible mechanisms for regulating international settlements will continue to grow.

