

T.C.
ISTANBUL OKAN UNIVERSITY
INSTITUTE OF GRADUATE SCIENCES

**THE ROLE OF BANKS IN REDUCING FRAUD AND CHEAT IN LETTERS
OF CREDIT TRANSACTION
APPLIED STUDY ON LIBYAN COMMERCIAL BANKS AND OTHER
COMMERCIAL BANKS**

WALID AHMED MOHAMED ALDAI ABUSHAALA
(162501021)

THESIS FOR THE DEGREE OF Ph.D.
OF BUSINESS ADMINISTRATION IN
BUSINESS PROGRAM

ADVISOR
Asst.Prof. Dr. Bülent Günceler

ISTANBUL, JANUARY 2022

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Submission Date of Thesis: / /

Presentation Date of Thesis: 18/ 01/2022

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ISTANBUL, JANUARY 2022

ÖZET

Araştırmacının bu çalışmanın amacı, Libya ticari bankalarının birçok eksenini gözden geçirerek akreditif işlemlerinde dolandırıcılık ve hileyi azaltmadaki rolünü vurgulamaktır. Akreditiflerin önemini ve dış ticaretin finansmanındaki rollerinin yanı sıra Libya ticari bankaları tarafından izlenen ve onaylanan kural ve prosedürlerin belirlenmesinin bir ifadesi olarak. Akreditif uygulama aşamalarında özellikle belge doğrulama alanında akreditiflerin uluslararası standart ilke ve normlarına uygunluğunun yanı sıra Merkez Bankası tarafından kontrol ve şartlar ve prosedürler ne ölçüde alınmıştır? Akreditif sürecini ve dolandırıcılık, zimmete para geçirme, dolandırıcılık ve bankalara yönelik saldırı vakalarının bildirilmesiyle ilgili kontrolleri düzenlemek için Libya? ve devletin ekonomisi. Araştırma problemi aşağıdaki soruda formüle edilmiştir:

(Libya ticari bankalarının akreditif işlemlerinde dolandırıcılık ve hileyi azaltmada rolü var mı?)

Bu çalışma, nihilist bir biçimde formüle edilen araştırma hipotezinin aşağıdaki şekilde test edilmesiyle doğrulanmıştır:

(H₀: Libya ticari bankalarının Akreditif işlemlerinde dolandırıcılık ve hileyi azaltmada rolü yoktur)

Araştırma metodolojisinde ise araştırma konusu ile ilgili kitaplar ve kaynaklar aracılığıyla betimsel ve analitik yaklaşım kullanılmıştır. Libya Merkez Bankası tarafından yayınlanan yayınların ve periyodik mektupların yanı sıra Libya Denetim Bürosu tarafından yıllara (2014-2015-2016-2017-2018) ait veri, istatistik ve raporların kullanımına ek olarak. Libya ticari bankalarında akreditif işlemlerinde manipülasyon, dolandırıcılık ve hile olgusu ve ayrıca diğer ülkelerdeki ticari bankaların akreditif işlemlerinde manipülasyon, dolandırıcılık ve hile olgusunu belirlemek. Uygulamada, anket formu, Libya ticari bankalarındaki akreditiflerin tüm departman ve bölümlerinde çalışan çalışanlar tarafından veri ve bilgi toplamak için ve ayrıca, akreditiflerin geçerliliğini veya yanlışlığını bulmak için istatistiksel analiz yöntemi (Spss) kullanıldı. boş hipotez. Ulaşılan en önemli sonuçlar arasında, Libya ticari bankalarının akreditif işlemlerinde dolandırıcılık ve hileyi azaltmada rolü olduğu ve özellikle Tekdüzen Gümrük taahhüdü konusunda dış ticaret alanında olumlu bir role sahip olduklarıdır. Akreditif ve Akreditif Uygulaması (UCP 600) ve ayrıca belgelerin incelenmesi ve denetlenmesi süreci ile ilgili olarak Libya Merkez Bankası'nın

aşağıdaki kontrollere ilişkin talimatlarına uygunlukları ile ilgili olarak:

-Libya Merkez Bankası tarafından düzenlenen akreditiflerin açılmasını düzenleyen şart ve usullere bağlılığı.

-Akreditiflerle ilgili sevkıyat belgelerini ve akreditif şartlarına uygunluğunu kontrol ve denetleme taahhüdü.

-Akreditif açma kontrollerinde büyük ihlal ve ihlaller yoktur.

Bu, Libya ticari bankalarının akreditif işlemlerinde dolandırıcılık ve hileyi azaltmada rolü olduğu anlamına gelmektedir.

- Libya ticari bankalarının akreditif işlemlerinde dolandırıcılık ve dolandırıcılığı azaltmadaki rolünün artması, satıcı (ihracatçı) tarafından alıcıya düşebilecek dolandırıcılık ve dolandırıcılık limitlerini artıracak, yani Satıcı tarafından yapılan hileli akreditif işlemlerinde azalma.

- Libya ticari bankalarının akreditif işlemlerinde dolandırıcılık ve dolandırıcılığı azaltmadaki rolünün artması, satıcı (ihracatçı) veya alıcı (ithalatçı) veya her ikisi birlikte kendilerine düşebilecek dolandırıcılık ve dolandırıcılık limitlerini artıracak, yani satıcı veya alıcı veya her ikisi tarafından yapılan hileli akreditifli işlemlerde azalma olacaktır.

- Libya ticari bankalarının akreditif işlemlerinde dolandırıcılık ve hileyi azaltmadaki rolünün artması, alıcı (ithalatçı), satıcı (ihracatçı) tarafından sunulan sahte belgelerde dolandırıcılık limitlerini artıracak, yani Bankalara sunulan sahte belgelerde azalma olabilir.

- Libya ticari bankalarının akreditif işlemlerinde dolandırıcılık ve hileyi azaltmadaki rolünün artması, satıcı (ihracatçı) veya alıcı (ithalatçı) tarafından ağırlıklar, ambalajlar ve diğerleri ile ilgili yanlış belgelerde meydana gelen manipülasyonlar için limitlerini artıracaktır. veya her ikisi birlikte, yani bankalara yanlış gönderilen belgelerde azalma olacaktır.

Müşteriler ve tüccarlar hakkında geniş anlamda entegre bir anlayış olmadığı için, Libyalı ithalatçı ile akreditif açma prosedürleri ve gümrük idaresi ile bağlantısı ile ilgili akreditif işlemlerinde meydana gelen dolandırıcılık ve hile vakalarının çoğu İhracatçının isteklerine bağlı olarak ithalat ve ihracata ilişkin akreditif işlemlerinde, ihraççıya yer bırakan, belgeleri tahrif ve yanıltıcı belgeler ile akreditif işlemlerinde manipülasyon, dolandırıcılık ve dolandırıcılık işlemleri Akreditif Akreditifi

işlemlerinde gerçekleştirildi. tedarikçilerden ilgili taraflar ve kredi açan ticari bankaların her birinin, Libya Merkez Bankası, Gümrük İdaresi, gümrük müşavirleri ve denetim şirketlerinin bazı çalışanlarının gizli anlaşmaları.

Bu çalışma, en önemlisi Libya Merkez Bankası'nın, ticari bankaların ve gümrük idarelerinin rolünün sadece akreditiflerin açılmasını ve mal girişini kolaylaştırmakla sınırlı kalmaması, daha çok hedeflere ulaşılmasını kolaylaştırmak için kullanımlarını izlemenin ötesine geçmeli ve döviz kaçakçılığı aracına dönüşmemelidir. Makul miktarda hedeflere ulaşılmasını garanti eden tüm formları ve raporları içeren entegre bir çalışma mekanizması biçiminde, birçok eksikliği gidermek için gerekli olan iç kontrol prosedürlerinin etkinliğini artırmak. Akreditiflerin her türlü manipülasyonuna karışanların kontrol altına alınması için gerekli tüm yasal tedbirlerin alınması, akreditifin açılma amacını değiştirmek, kamu parasına ve devlet ekonomisine zarar veren tüm olumsuz olaylarla mücadele etmek, ihlal edenleri kamuoyuna ortaya çıkarmak ve sevk etmek. araştırma konusu ile ilgili diğer bazı tavsiyelere ek olarak, kanun ve yürütme düzenlemelerinin kendilerine verdiği yetkileri takip eden yetkili makamlar.

Anahtar Kelimeler: Akreditif, Dolandırıcılık, Hile, Manipülasyon, Uluslararası Ticaret, UCP.

ABSTRACT

The researcher's goal of this study is to highlight the role of Libyan commercial banks in reducing fraud and cheat in Letters of credit transactions by reviewing many axes. As a statement of the importance of letters of credit and their role in financing foreign trade, as well as identifying the rules and procedures followed and approved by Libyan commercial banks. What is the extent of its compatibility with the international standard principles and norms of Letters of credit, especially in the field of document verification in the stages of Letter of credit implementation, as well as the controls and conditions and procedures were taken by the Central Bank of Libya to regulating the process of Letters of credit and the controls related to reporting cases of fraud, embezzlement, cheat, and attacks against banks?... Finally, the role of the Libyan Audit Bureau in combating negative phenomena is harmful to public money and the state's economy. The research problem has been formulated in the following question:

(Do Libyan commercial banks have a role in reducing fraud and cheat in Letters of credit transactions?)

This study has been verified by testing the research hypothesis, which was formulated in a nihilistic form and as follows:

(H₀: Libyan commercial banks have no role in reducing fraud and cheat in Letters of Credit transactions)

As for the research methodology, the descriptive and analytical approach was used through books and references related to the topic of the research. In addition to the use of publications and periodic letters issued by the Central Bank of Libya as well as data, statistics, and reports issued by the Libyan Audit Bureau for the years (2014-2015-2016-2017-2018). On the phenomenon of manipulation, fraud, and cheating in Letters of credit transactions in Libyan commercial banks and also to identify the phenomenon of manipulation, fraud, and cheating in the transactions of letters of credit of commercial banks in other countries. In practice, the questionnaire sheet was used to collect data and information by employees working in all departments and sections of Letters of credit within Libyan commercial banks, as well as using the method of statistical analysis (Spss) to find out the validity or incorrectness of the null hypothesis. Among the most important results that have been reached is that Libyan commercial banks have a role in reducing fraud and cheat in letters of credit

transactions, and have a positive role in the field of foreign trade, especially concerning their commitment to the Uniform Customs and Practice for Letters of Credit (UCP 600), and also concerning the process of examining and auditing documents, in addition to their compliance with the instructions of the Central Bank of Libya regarding the following controls:

- Its commitment to the conditions and procedures regulating the opening of letters of credit issued by the Central Bank of Libya.
- Its commitment to checking and auditing the shipping documents related to letters of credit and their compliance with the conditions of the letters of credit.
- It does not have major breaches and violations of the controls for opening letters of credit.

This means that the Libyan commercial banks have a role in reducing fraud and cheat in letters of credit transactions. Libyan commercial banks have a positive role in reducing fraud and cheat in letters of credit transactions concerning the following points:

- The increase in the role of Libyan commercial banks in reducing fraud and cheat in Letters of credit transactions, will increase their limit for fraud and cheat that may fall on the buyer by the seller (the exporter), in other words, there will be a decrease in the fraudulent letter of credit transactions by the seller.
- The increase in the role of Libyan commercial banks in reducing fraud and cheat in letters of credit transactions, will increase their limit for fraud and cheat that may fall upon them by the seller (exporter) or the buyer (importer) or both together, in other words, there will be a decrease in transactions fraudulent letters of credit by the seller or buyer or both.
- The increase in the role of Libyan commercial banks in reducing fraud and cheat in letters of credit transactions will increase their limit for fraud in the forged documents submitted by the buyer (importer), the seller (exporter), in other words, there will be a decrease in forged documents submitted for banks.
- The increase in the role of Libyan commercial banks in reducing fraud and cheat in letters of credit transactions, will increase their limit for manipulations that occur incorrect documents related to weights, packaging, and others by the seller (exporter) or the buyer (importer) or both together, in other words, there will be a decrease in documents Incorrect submitted to banks.

Most cases of fraud and cheating that occurred in the transactions of Letters of credit

related to the Libyan importer and his procedures for opening the Letter of credit and its connection with the customs authority as there is no integrated understanding of the clients and traders in large aspects in the transactions of Letters of credit related to import and export and depend on what the exporter requests, which allows room for the issuer have tampered with and deceived documents, and the manipulation, fraud and cheat in Letters of credit transactions were carried out by the relevant parties from suppliers and collusion by some employees of each of the commercial banks opening credits, the Central Bank of Libya, the Customs Authority, customs brokers, and inspection companies.

This study concluded with several recommendations, the most important of which is that The role of the Central Bank of Libya, commercial banks, and customs offices should not be limited to facilitating the opening of letters of credit and entry of goods only, but rather it should go beyond monitoring their use to facilitate the achievement of goals and that it does not turn into a means of smuggling hard currency. And increase the effectiveness of the internal control procedures necessary to address many of the deficiencies, in the form of an integrated work mechanism that includes all forms and reports that guarantee the achievement of a reasonable amount of targets. Taking all necessary legal measures to control those involved in any manipulation of Letters of credit change the purpose for which it was opened, fight all negative phenomena that are harmful to public money and the state's economy, uncover violators to public opinion and refer them to the competent authorities following the powers granted to them by the law and its executive regulations, in addition to several other recommendations related to the topic of research.

Keywords: Letters of Credit, Fraud, Cheat, Manipulation, International Trade, UCP.

ACKNOWLEDGMENT

This thesis was written for my Doctor of Banking and Finance, Okan University. Therefore this study has been dedicated and offered to some important people who have given great support. First of all, I would like to thank my family, who supported me to start my educational journey. I acknowledge with gratitude the role of my friends. I am deeply indebted to my supervisor **Dr. Öğretim. Üyesi Bülent Günceler** for his intellectual guidance, support, and constructive criticism and also to thank my co-supervisors, **Prof. Dr. Halit Targan Ünal, Doç. Dr. Ali Altuğ Biçer, Doç. Dr. Edin Güçlü Sözer and Dr. Öğretim. Üyesi Hakan Özca** for their intellectual inputs in the progress of this thesis. I also thank the members of the Okan University (Business Administration) department for their support.

Lastly, I would like to submit some credits to all people who have taken place in my life. They altogether have had roles about who I am and what I have done. I would like to thank them for every single moment of support.

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LIST OF ABBREVIATIONS

LC: Letter of Credit.

ICC: International Chamber of Commerce.

UCP: Uniform Customs and Practice for Letters of Credits.

ERM: Enterprise Risk Management Program.

SWIFT: The Society For Worldwide Interbank Financial Telecommunication.

MT 700: Issue of a Letter of Credit.

CBL: Central Bank of Libya.

ISBP: International Standard Banking Practice.



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CHAPTER 1: INTRODUCTION

1.1 Introduction:

A letter of credit (LC) is considered to be an instrument that is commonly used to facilitate payments in business transactions between buyers and sellers and can be used either locally or across borders. LCs, which are governed by the Uniform Customs and Practice (UCP) and formulated by the International Chamber of Commerce's (ICC) Commission on Banking and Practice, is a mechanism in which the bank acts as the paymaster on behalf of the purchaser by executing payment to the seller; conditional on compliance of the seller's documents to the letter of credit (LC) terms (Article 5, UCP 600). Since the disbursement of funds is solely based on the conformity of documents to the letter of credit (LC) requirements, the window of opportunity for committing fraud is left ajar and may be exploited by irresponsible parties involved in the trade. If, for example, a fictitious contract submitted to a bank goes undetected, the bank will issue the LC after receiving confirmation from its customer that the deal is credible. When documents are presented to the bank to be checked against requirements of the letters of credit (LC), the bank merely needs to ensure that all documents are in order and fulfill all letters of credit (LC) conditions (Article 14, UCP 600). The bank is, however, under no obligation to verify the authenticity of documents or the signatures thereon, as specified in the UCP 600 (2007)¹. Therefore, in such cases, there is a possibility that wrongful payment will be made to the seller. Article 34 of the UCP 600 asserts that the bank is not liable for the falsification of documents or goods being traded under the letters of credit (LC), as stated below:(RosmawaniCheHashim, NurulShahnazMahdzan, 2014).

“A bank assumes no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any document, or the general or particular conditions stipulated in a document or superimposed thereon; nor does it assume any liability or responsibility for the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods, services or other performance

¹The UCP is a body of Articles which regulate the implementation and operation of LC. Its existence witnessed the best effort of the International Chamber of Commerce (ICC) to produce this valuable work which was first published in 1933. The latest version is the UCP 600 was implemented on 1st July 2007. Even though UCP has no force of law, it is applied in almost all transactions involving LC.

represented by any document, or for the good faith or acts or omissions, solvency, performance or standing of the consignor, the carrier, the forwarder, the consignee or the insurer of the goods or any other person.”

Letter of credit plays an important role in international trade especially in the scope of implementation of international trade contracts as a foolproof way to settle the payments resulting from international exchanges and guarantee the conflicting interests of the seller and the buyer. As international trade is between the seller and the buyer were in two different counties thus, each party wants to assure his rights. The seller wants to make sure of obtaining the price of the goods, at the same time, the buyer needs to ensure he obtains the goods that have been paid for. Therefore the banks intervened as a key player in international trade operations to regulate this process by letters of credit. As the letters of credit system deal with both sides of the business process through documents, some people have been able to commit cheating and fraud in letters of credit which caused large damages to the importers because the unified international customs of letters of credit did not address the issue of cheating as a restriction on the principle of the independence of the Bank's obligation (Azad ShakourSaleh, 2008).

Fraud in letters of credit (LC) transactions can be committed either by the seller, buyer, or financial intermediary (Curtin, 1987). Among these, fraud committed by the seller is said to be the most prevalent (Lee, 2009; Miller, 1959), leaving devastating effects on the purchaser. Such a situation could be described by the Director of International Commercial Crime, as follows:

“False documents that comply with letters of credit (LC) terms are presented by the seller to the bank. The confirming bank then pays and sends the documents to the issuing bank. The buyer believes that the cargo has been loaded and is on its way to its destination. In many cases, it is only when the vessel is due to arrive at the destination port that the buyer discovers that the cargo, as contracted, has not been loaded on board. He has paid for the deal but is put under spurious documents.”

As noted above, fraud committed by the seller via letters of credit (LC) transactions will have adverse effects on the buyer, since the buyer is still under obligation to repay the bank for credit facilities that have been disbursed, although he has received faulty or no goods at all (McCormack, 2000).

Article (1316) of Law No. 23 of 2010 - dated 21/8/2010 on the Libyan Commercial Activity (Libyan Commercial Law):

1. Definition of Fraud:

Fraud is the manifestation of any manifestation or attempts to show a commodity or service without its real appearance, whether by introducing fraud on the product itself or by manufacturing, possessing, or using tools, machines, or methods that help in fraud to achieve a return or gain. fraud shall include the following:-

1_Manufacture, production, display, circulation, transfer, import, or possession of a commodity with the intent of trading knowing that it is adulterated, corrupt, toxic, expired, or contrary to the approved standard specifications.

2_The use of unauthorized scales, measures or measures, or tools or machines that defraud goods and services.

3_Delivery or use of a certificate of quality for fraud.

4_Description or misleading of goods and services in their description, advertising, or display in a manner involving false or deceptive statements.

5_Deception of the consumer in the provision of goods and services within the contracted deadlines, and in the methods of sale and payment methods.

6_Fraud in the number of goods, whether in weight, measurement, number, energy, or caliber, or the use of methods or means that make this incorrect.

7_Fraud in the source of goods or in the way of manufacture or preparation

8_Fraud in the subjectivity of goods and services, their nature, sex, type, elements, or intrinsic qualities.

Cheat Crimes: Article (461) of the Libyan Penal Code 2012:

2. Definition of Cheat:

"Cheat could be any person who obtains an unlawful benefit to himself or others, damages others by using fraudulent methods, or by disposing of fixed or movable property that does not belong to him or has the right to dispose of it or by taking a false name or an incorrect characteristic"

1.2 Literature Review:

1_(Hashm Al-Jazairi, Marwan Ibrahim, 2006)

The study entitled (The role of banks in reducing fraud in letters of credit). This study recommended the following:- The bank's staff in the field of letters of credit

should have a high degree of experience and should receive training courses in this field because most of the documentary fraud cases were either due to lack of experience of the employees in this field or because of negligence. The Bank's client's direction concerning the examination of the documents is an obligation to achieve a result and not an obligation to care. Therefore, when examining the documents, the bank must not consider the circumstances of the sales contract between the importer and the beneficiary and any other external circumstances.

2_(Azad Shakour Saleh,2008)

The study entitled (Fraud in Letters of credit and its Impact on Bank Commitment - Comparative Study).

The purpose of this research is to highlight the nature of the fraud in the letters of credit to clarify the substantive and formal conditions required for this fraud, and to determine its legal effects, as well as the manifestation of the practical aspects of cheating in the context of the letter of credit under the jurisprudence of the Iraqi and Comparative Judiciary. This paper presents the most prominent problems raised in this regard, in addition to the methods of protection against fraud in letters of credit.

The study reached the following results:-

1_It seems that the unification of the rules governing the letters of credit on an international scale through the publications issued by the Chamber of International Trade did not solve the problems and issues that limit the role of letters of credit in a final and complete manner, especially against the risks of fraud, deception, and forgery, and did not address this issue through its texts, As well as the law of Iraqi and Egyptian trade and the majority of other laws. Therefore, jurisprudence has been divided into two directions in many matters concerning the state of fraud and its impact on the process of a letter of credit.

2_A bank is obliged to pay the amount of the credit to the beneficiary if the documents are received and were in compliance with the instructions only if the bank is aware of cheating and forgery in the documents or in the case of a judicial ruling that nullifies the contract concluded between the client and the beneficiary, and in this case, the bank is not obliged to pay.

The study recommended that:-

1_Import and export by opening letters of credit or bank credits by official banks and under import licenses for goods issued by the Ministry of Commerce to regulate the

importation and reduction of fraud and counterfeiting and prevent the entry of cheap commercial goods with unknown ingredients and protect the Iraqi consumer from counterfeit materials.

2_ To work on opening training and introductory courses on the work and procedures of opening and implementing letters of credit to limit mistakes and problems that may be faced by employees of banks or traders alike to spread culture and raise awareness and knowledge of fraud in letters of credit and its impact on the Bank's compliance with the Unified Credit Standards. Many problems are caused by ignorance of these norms and rules that may be able through which the foreign supplier to use fraudulent methods and use it for personal benefit and achieve substantial material gains at the expense of the benefit of the merchant and the Iraqi banks Both.

3_ (Muayad Obeidat, Abdullah Al-Khashroum, 2009)

The study entitled (The risks of letter of credit Analytical Study of the Bulletin 600). The purpose of this research is to identify the risks that can be faced by the letter of credit parties such as the buyer, the seller, and the bank.

This study has revealed some results, for example, firstly, there is a risk to the buyer as a result of expediting the amount of the credit to the bank, which the latter pays to the seller who does not send the goods except when the price is paid (the value of the credit), which will expose the buyer to receive goods that may be inconsistent with the documents sent and not agreed with Them between the seller and the buyer.

Secondly, the letter of credit may involve some of the risks that surround the seller, especially if the seller shipped the goods to the buyer and the bank refused to deliver the price, and this may be achieved in cases where the seller sends the goods to the buyer before receipt of the price, the bank refuses to deliver the price based on the non-conformity of documents submitted by Before the seller for the terms of accreditation. The loss of documents on its way to the bank would miss the opportunity for the seller to receive the price, especially in cases where the credit for a limited period, which would involve the bank's failure to deliver the amount of accreditation for lack of documents.

4_ The study by (Christensen, 2009) entitled (How LCs are faring in the economic turmoil: view from four countries: Europe) reviewed the impact of the economic crisis on letters of credit in Europe. The researcher identified the types of risks associated

with the letters of the credit industry and the means of reducing them. The study concluded that letters of credit can maintain their status if risks are managed well.

5_The study by (Saleh Khalil al-Aqdah, Dalal Khalil al-Kikhen, Imad Ziad Ramadan, 2010) entitled (The risk of letters of credit on banks and the impact of the application of the bulletin 600 of the unified assets and customs of the credits to be reduced applied study on Jordanian banks).

This study aimed to shed light on the credit risk faced by commercial banks in Jordan and the effectiveness of the bulletin 600 of the unified assets and traditions of the credit in reducing these risks. The analytical inference method was used in the study. A questionnaire was designed for this purpose, The study achieved several results for instance, the most important of which is the existence of statistical evidence that the political risks, reputation risks, and the risks of fraud are among the risks to commercial banks as a result of the opening of credit and that the bulletin was able to reduce it. This is to state that these risks are considered to be statistically significant.

The study concluded that the market risk in terms of statistical is one of the risks to the Jordanian commercial banks as a result of the issuance of appropriations and did not affect the publication of this type of risk. The study also found the existence of statistical evidence that the political risks reputation risks and fraud risks are among the risks that Commercial banks are subject to the opening of credit, and the bulletin affected the reduction of these risks in statistical terms. As for operational risks, the study showed that there is statistical evidence that they are not among the risks faced by banks as a result of the opening of credit. This means that there is no statistical evidence that the leaflet reduces this type of risk. The study recommended that the Bank should establish a clear credit policy, in which credit managers are required to mitigate the credit risk when dealing with new customers. Moreover, A need to hold training courses for bank credit department staff, and refresher courses to familiarize employees with the latest in terms of appropriations and policies adopted by the bank and the need to establish clear procedures for employees to mitigate the risks of mistakes committed by bank employees. What is more, is that the International Federation should review the subsequent bulletins and include them in materials that mitigate customer risk.

In addition, this study should be completed to cover future risks to customers.

6_The study of (Muzezi Sonya, 2013) entitled (Fraud and its impact on the independent banking commission in the contract of letter of credit in Algerian law) found that letter of credit is a commercial legal institution established to ensure that the prices of international labor are guaranteed by an independent undertaking in its nature and simply because they are issued by the bank. The exceptional facts that may accompany the international sale contract do not affect the independence of the bank's commitment. International courts and jurisprudence have agreed that fraud is the only exception on the principle of the independence of authoritative appropriations, particularly in the absence of a uniform legal standard that would demonstrate a legally reasonable fraud.

7_An other study conducted by (Rosmawani Che Hashim, NurulShahnaz Mahdzan, 2014) entitled (Fraud in the letter of credit transactions: The experience of Malaysian bankers). This study aimed to explore the issue of fraud in letter of credit (LC) transactions in Malaysia. As well as exploring the common modus operandi used by fraudsters in LC transactions and highlighting the various actions taken by banks when dealing with forged LC documents and fraudulent goods.

This study revealed that although the phenomenon of fraud in LC arrangements in Malaysia is marginal, banks have indeed experienced fraud in LC dealings. Bank's actions are firmly guided by the Uniform Customs and Practice (UCP) for letters of credit, which affirms that banks must honor payment to the seller upon full compliance with the LC requirements. It also revealed that the banks adhere to the (UCP) guidelines despite being presented with falsified documents that cannot be fully proven or even when there are possibilities that substandard goods are being transacted.

8_The study of (Chang-Ryung Han, Hans Nelen, Matthew Youngho Joo, 2015) entitled (Letter of credit fraud against banks: analysis of Korean cases) aims to explore the feature and mechanism of a new type of letter of credit fraud that victimizes banks' issuing letters of credit (L/C), harming neither the importer nor the exporter, and seeks to suggest possible measures to tackle it. This study found that the importer that engaged in the fraud cases had established a solid business relationship with the exporter and had established trust with the victimized banks; the banks, even though they had their risk management systems to screen out unqualified L/C applicants, were defrauded by the offending importers and exporters. Unlike an

ordinary letter of credit fraud, fraud against banks can be tackled by customs because the offender and the victim typically operate in the same jurisdiction, and this type of fraud often results in trade-based capital flight and money laundering, which is the target of customs enforcement.

9_The study conducted by (HamedAlavi, 2016) entitled (Mitigating the Risk of Fraud in Documentary Letters of Credit) tries to fill the gap in the study on comprehensive methods for mitigating fraud risk in operations with documentary letters of credit by using risk management theory to answer the question of how to manage fraud risk in LC transactions? In a quest to answer the research question, the paper was divided into two parts: the first part is dedicated to preventive measures while the latter explores responsive measures of an enterprise to manage fraud risk in LC transactions.

Finally, the study decided that fraud could impose significant costs on the enterprise. Therefore it is recommended to include fraud risk in the core of the enterprise risk management (ERM) program. Proper fraud risk management contains effective preventive and responsive measures which also apply to fraud risk management programs applied to documentary letters of credit. This means that there could be many reasons for the vulnerability of international LC transactions to fraud risk, including the banks' sole reliance on documents, the geographical distance between the applicant and the beneficiary, lack a globally accepted legal framework to prevent and respond to the risk of fraud in LC transaction. Hence, all parties involved in the operation of documentary letters of credit are required to implement necessary preventive and responsive measures to mitigate the risk of LC fraud.

In addition to analyzing theoretical aspects of fraud in documentary letters of credit, it can be concluded that this paper tried to explore different methods for mitigating fraud risk by taking a look at various preventive methods which can be applied by applicants, beneficiaries, and banks to minimize the occurrence of fraud as well as the different steps that an enterprise should take while being defrauded.

10_The research carried out by (Yeming Ding Bruno Zeller, 2018) entitled (The fraud exception in letters of credit – the Chinese approach) aims to examine the effectiveness of the new provisions concerning the L/C fraud exception rules. The issue is whether the Chinese view of the fraud exception, which was introduced by the Uniform Customs and Practice Model Law for letters of credit (UCP), is effective and in line with accepted international views. To that end, this paper will explain the

provisions and then employ a comparative approach. It will briefly compare Chinese fraud regulation with English and U.S. jurisprudence and measure effectiveness by noting the prevailing English and U.S. views.

The conclusion is that, in general, Chinese regulations are in line with international jurisprudence, and therefore, the reforms are working overall. However, some gaps or questions give rise to uncertainty. This paper suggests that the gaps need to be resolved either by courts or through further regulation by the Supreme People's Court.

According to the literature review, it could be concluded that the literature review highlighted the fact and nature of fraud and cheat in the letter of credit transactions, besides the fraud and cheating methods used by fraudsters in letters of credit, either by the buyer (importer) or seller (exporter) or both. Some of them made recommendations as an attempt to reduce the phenomenon of fraud and cheat in letters of credit but without exposure to this phenomenon of serious damage to the national economy of the country by depleting the reserves of the central bank of foreign exchange and thus the decline of the proceeds of sovereign revenues. The general level of prices has been rising in the country, where fraudsters resort to fraud and cheat in the letter of credit transactions to evade customs duties and achieve large and rapid gains and acquisition of foreign currency thus smuggling it abroad.

This research aims to shed light on the nature of cheating in letters of credit Transactions on Libyan banks and also tries to clarify the applied appearances of cheating in the context of the letter of credit where court cases in Libya reveal that fraud cases involving letters of credit (LC) transactions follow a similar *modus operandi*. However, it has been noted that there is very limited academic research on the issue of letters of credit (LC) fraud in the context of Libya. Given the lack of literature in the Libyan context, the current study is conducted with four (4) main objectives. First, we explore the issue of letters of credit (LC) fraud by examining how serious it's for the Libyan economy. Second, we investigate the common *modus operandi* undertaken by fraudsters. Thirdly, we investigate and highlight the actions taken by the Libyan Audit Bureau in dealing with such cases. Lastly, we offer recommendations that can potentially mitigate the problem of fraud in letters of credit (LC) transactions.

This study is significant in several ways. First, the issues to be highlighted in this paper will create awareness regarding the adverse risks of international trade

conducted via letters of credit (LC). Since this issue is rarely discussed in public, greater awareness will safeguard potential letters of credit (LC) applicants from being deceived by perpetrators. Also, findings of the study revealing the common modus operandi committed by fraudsters enable the recommendation of possible reforms that can be undertaken. Lastly, this study fills the gaps in the local literature since most past research is conducted in other countries and it has been noted that this issue has received little research interest in Libya.

1.3 Research Problem:

The main problem of the research is the lack of credibility and trust between the seller and the buyer in the stages of implementing the letters of credit and the methods of fraud and cheat:-

1_Cheat against the Buyer:

Any offer of goods that do not exist, where documents are presented including a bill of lading, but no goods or goods are sold to a different number of persons.

2_Cheat against Banks:

Banks are victims of what is called appropriations when the buyer colluding with the seller mislead the bank through the financing of the transaction without the existence of any of the goods or the value of the goods is much lower than the value to be transferred through the letter of credit.

3_Fraud in Letters of Credit (Documentary Forgery):

Documents are used to conceal the fact that the goods are either non-existent or not of the same quality or quantity as required by the buyer.

The forgery in the letters of credit may be by one group that agrees with each other and the roles are distributed among them, some of them being a seller and the other a buyer through the provision of forged documents or modification or distortion in the documents that are submitted to banks to achieve remittances and such methods may be difficult to detect by banks. It is also possible to open credit through the use of fake names and fake companies.

These groups usually resort to the falsification of these documents and submit documents to the bank. After obtaining the transfers, these names and companies disappear. The banks rely on the documents and documents that are approved and approved by the authorities. It does not participate in the drafting of commercial contracts but can cooperate with the importer as a step towards avoiding or

minimizing the occurrence of cases of fraud. The bank is limited to receiving documents only. It is a paper, not a commodity.

It is possible to check when there are irregular papers or Relegates the documents only then required to complete the documents, documents and additional documents do not mean that the importers and banks are safe and on the buyer to make sure the good reputation of the seller, the bank does not bear the burden of scrutiny and examination of documents and their conformity with the letter of credit. A very important observation should be noted in the text of Article (5) of the (UCP600):

"(All parties involved in the accreditation process shall deal with documents and shall not deal with goods, services and/or other aspects of implementation to which such documents relate)".

Accordingly, the Bank shall not be responsible for any other goods or services that are not in compliance with the required goods, as long as the documents submitted under the accreditation authority comply with the requirements and specifications of the accreditation, the new types of documents accepted and the entry of documents issued by modern technical means, (22) of the (UCP600) states that banks shall accept documents produced using reproduction, photocopying, or carbon copy as if they were original if such documents are imprinted as an original copy and provided that such documents Certified when the judiciary.

The lower the rates of fraud in letters of credit, the companies will be safe from the risks. When companies face and declare cases of fraud, fraud victims can scrutinize how such fraud has been performed and the losses incurred. The buyer seeks compensation from the insurance company that performed the insurance on the goods, but this reveals that the insurance company refrains from compensation in circumstances where the goods do not exist, and despite all the ways that the victims of fraud to take care and caution to try avoidance of exposure to new cases in letters of credit.

However, the reality of the situation indicates that there may not be many positive indicators of decreased incidence of fraud and the absence of statistics on fraud in letters of credit and that the losses resulting from these frauds amount to hundreds of millions and the problem that victims of fraudulent operations refuse permission to ensure their business reputation.

The increasing sophistication of fraudulent methods and the fact that people who commit fraud are often exempt from punishment all require increased vigilance and vigilance by all parties involved in international trade.

4_Manipulation of Letters of Credit:

Supply part of the goods and cover the difference by manipulating and fraud documents, It includes the following: Manipulation of packing data, Manipulation of live cattle weights, Fully fabricating supply documents.

Hence the main problem of this research is in the form of the following question:

(Do Libyan commercial banks have a role in reducing fraud and cheat in Letters of Credit Transactions?)

The main question is divided into the following sub-questions shown to be:-

- Do Libyan commercial banks committed to the procedures and conditions for opening letters of credit by the Central Bank of Libya?
- Do Libyan commercial banks committed to the general controls for opening letters of credit by the Central Bank of Libya?
- Do Libyan commercial banks obligate to examine the shipping documents of letters of credit and their compliance with the terms of the credit and the risks of fraud and cheat in its field?

1.4 Research Model:

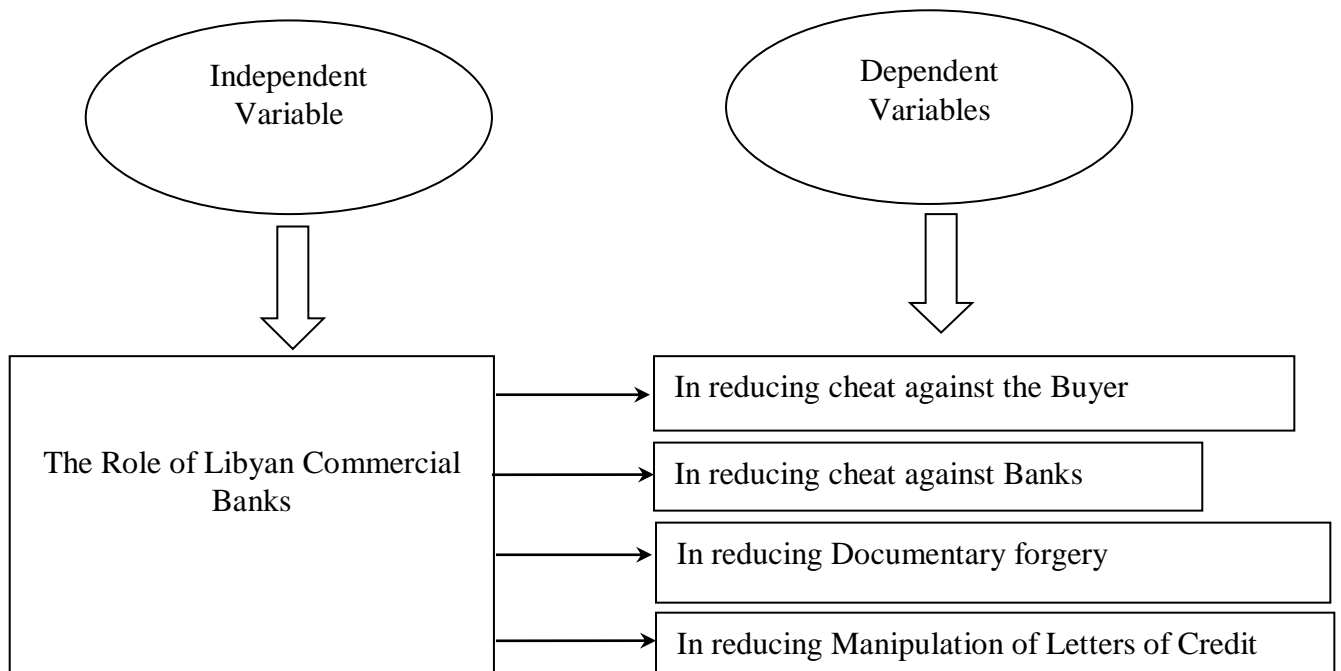


Figure (1.1): Shows the Research Model

1.5 Research Hypothesis:

Based on the research problem and its objectives, the main hypothesis of the research can be formulated as follows:

H₀: Libyan commercial banks have no role in reducing fraud and cheat in Letters of Credit Transactions.

This hypothesis is divided into several sub-hypotheses, which are formulated in the nihilistic form in the following order:

H₀₁: Libyan commercial banks do not comply with the procedures and conditions for opening letters of credit by the Central Bank of Libya.

H₀₂: Libyan commercial banks do not abide by the general controls for opening letters of credit by the Central Bank of Libya.

H₀₃: Libyan commercial banks do not comply with examining letters of credit shipping documents, their compliance with credit conditions, and the risks of fraud and cheat in its field.

1.6 Importance of the Research:

The importance of the research is as follows:-

1_Statement of the regulations, conditions, and procedures regulating the opening of letters of credit.

2_Statement of controls relating to the reporting of fraud, embezzlement, and cheating against Libyan commercial banks.

3_Statement the importance of letters of credit and their role in financing foreign trade, and to identify the rules and procedures adopted and approved by Libyan commercial banks and their compatibility with the unified assets and customs of letters of credit (UCP600), especially in the field of auditing documents in the stages of implementation of letter of credit.

1.7 Research Objectives:

This research has the following aims:-

1-To identify the extent to which the customers of the letters of credit in the Libyan commercial banks know the unified assets and customs of letters of credit.

2-Recognition of the status of letters of credit in Libyan commercial banks and the extent of its beyond the consolidated assets and customs of letters of credit.

3-Recognition of the extent of Libyan commercial bank's compliance with (SWIFT)

review of the letter of credit and its conformity with the basic conditions agreed upon with the seller (exporter) under the initial contract.

1.8 Research Methodology:

The study relied on the analytical descriptive approach by reading books and references related to the research subject to make an integrated framework for research. Research on the practical side (field study) was based on the use of the questionnaire to collect data and information through staff working in all departments and letter of credit departments within Libyan commercial banks and other commercial banks, besides using the statistical analysis method (Spss) to determine the hypothesis of the research. It is also relying on scientific reports and papers published in scientific journals and periodicals through the Internet, in addition to the use of publications, reports, resolutions, and periodic letters issued by the Central bank of Libya with data and statistics issued by the Libyan Audit Bureau on the phenomenon of manipulation of the credit letters.

1.9 Disposition of the Study:

Chapter 1 Introduction	This Chapter provides the Introduction, Literature Review, Research Problem, Research Hypothesis, Importance of the Research, Research Objectives, Research Methodology, and Disposition of the study.
Chapter 2 Methodology and Theoretical Framework	Letters of Credit As a Function of Commercial Banks. Letters of Credit.
Chapter 3 Methodology and Theoretical Framework	Examination of Shipping Documents. The problem of Checking Shipping Documents.
Chapter 4 Methodology and Theoretical Framework	Fraud and Cheat in Letters of Credit Transactions.
Chapter 5 Field Study	It includes the Data analysis, Results, Findings, and Discussion.
Chapter 6 Results and Recommendation	The last chapter includes Results, Recommendation and Conclusions.

Table (1.1): Disposition of the Study

CHAPTER 2: The Part I

Letters of Credit As a Function of Commercial Banks

2.1.1 Commercial Banks:

Commercial banks are considered one of the oldest banks in terms of origin and represent a pillar of the banking system, which comes in the second place after the central banks, and commercial banks have gone through several stages and developments in terms of business introduction and organization by major traders, moneylenders and goldsmiths in the early 14th century AD. During this period, Europe witnessed a great economic boom, and even over time, the development of commercial banks became the way they are today.

Thus, commercial banks are specialized in providing banking and banking services, accepting deposits, granting credit and loans to those who request them in return for providing the necessary guarantees and paying the specific interest due on the loan. To invest and use funds in an orderly manner and following known banking assets (Egyptian, 1998, p. 35).

2.1.2 Establishment of Commercial Banks:

The origins of modern commercial banks date back to the early European Renaissance in the cities of northern Italy, which had witnessed an active trade and economic movement in the late Middle Ages, the emergence of the feudal system, and the accumulation of wealth of the rich, where the signs of the great commercial and industrial prosperity there led to the spread of a multi-currency mix. The source of this diversity is the neighboring countries of Europe, which was witnessing the beginning of the era of commercial and industrial prosperity as well, and used the ports of Italy in the implementation of import and export operations, which called money changers and goldsmiths to trade in money and accept Deposits and carry out currency exchange business to complete trade exchanges. (Albitariq, 1971, p. 20)

In 1157, the first institution called the Bank of Venice appeared in Italy. He founded the Bank of Deposits in Barcelona in 1401 and the Amsterdam Bank of the Netherlands in 1209. This bank is considered the last model followed by most banks. The European Union was established after that, taking into account the differences of circumstances and conditions between countries (Najjar, 1970, p. 154).

2.1.3 Concept of Commercial Banks:

The concepts of the Commercial Bank are numerous. They include *"a financial institution whose primary purpose is to accumulate and invest savings or borrow money at a certain interest rate to lend it and its capital and investment at a rate higher than the borrowing rate. The bank also provides several services related to money or the like"* (Al-Mughrabi, 2005, p. 75).

It is also *"a financial institution that normally accepts deposits (demand deposits or term deposits), and acts as a financial intermediary between savings owners and investors who wish to invest in financial assets"* (Eilaq, 1998, p. 11).

2.1.4 Types of Commercial Banks:

There are two main types of commercial banks:-

1-Commercial banks with one unit:

These are banks with no branches, whose work is limited to a specific geographical area such as major cities, provinces, or states in some countries. The nearest example of this type of bank is private banks in Libya, where each bank is managed by an executive director. Each bank is an independent unit with no branches (Al-Qamati, Kajiji, 2004-2003, p. 9).

2-Commercial banks with branches:

These are banking establishments that follow a policy of decentralization in the management of their affairs and have branches scattered throughout the country. These loans are required to be used to finance working capital to ensure the rapid recovery of loans (Eilaq, 1998,p. 13).

2.1.5 Objectives of Commercial Banks:

The objectives of commercial banks are as follows:-

1-Liquidity:

The bulk of the bank's financial resources are demand deposits, so the bank should be ready to meet them at any moment. This is one of the most important features that commercial banks distinguish from other businesses. Receivables, even for some time, merely a rumor that insufficient liquidity has been provided by the bank will undermine the confidence of depositors and force them to withdraw their deposits, thus risking bank failure.

2-Profit:

The bulk of the bank's expenses consists of fixed costs of interest on deposits, which according to the idea of leverage means that the profits of these banks are more

affected by the change in their revenues, compared with the other business entity, so it is said that commercial banks are one of the most vulnerable institutions. If the bank's revenues increase by a certain percentage, the profits will increase by a greater percentage. While there is a decrease in deposits, while reliance on deposits is a major source of the Bank's resources, there are some downsides concerning term deposits as a result of the Bank's obligation to pay interest on them, whether or not the Bank makes a profit.

The return that the bank will achieve on its investments is usually more than the return requested by its owners. Therefore, if the bank relies on property funds to finance investments, it will close doors from the first day and may not even open its doors. Depending on deposits as the main source of financing investments. The bank earns a net income which is the difference between the profits generated from the investment of these deposits and the interest paid on them, and of course, this difference goes to the owners, which makes the return they get much greater. Net interest is sometimes referred to as the return on financial payment or the return on trading in property, i.e. the return resulting from relying on third parties' funds to finance investments.

3-Safety:

The capital of the commercial bank is small, as the total assets do not exceed 10%, which means a lower level of security for depositors whose bank relies on their money as a source of investment, the bank can't absorb losses more than the value of the capital, if the losses more than that may devour Part of the depositors' money and the result is bankruptcy (Qamati, Kajiji, 2003-2004, p.8-9).

2.1.6 Characteristics of Commercial Banks:-

1-The Commercial Bank shall have exclusive jurisdiction over other commercial institutions and enterprises that most of its assets constitute rights over other institutions and persons, and that most of its resources are rights of other institutions and persons in the form of various deposits.

2-Commercial banks are specialized in the ability to lend, either through intermediation between savers and investors (deposit and lending) or by creating and lending sources of financing. Thus, banks exert an effective impact on the size of credit and its distribution among different economic sectors.

3-Commercial banks deal only in cash and financial assets such as deposits, loans, and securities. They do not enter into direct investments in real assets, but the laws of

banks in most countries prevent commercial banks from entering into real assets investments to the extent required by the nature of the commercial bank's business. Owning furniture and buildings of the bank (fixed assets).

Finally, the main characteristic of the work of commercial banks in their ability to create and destroy money, based on the definition of money as demand deposits include current accounts, when commercial banks acquire any financial assets yielding return, the result of the sale or transfer of these assets is reflected in the form of an increase in The deposits of commercial banks are therefore the most important direct source of changes in the money supply (Hassiyah, 1995, p. 17-18).

2.1.7 Functions of Commercial Banks:

Commercial banks perform several functions, including cash, and non-cash, and these functions can be divided into (traditional) and classic (modern), the most prominent of these functions are:-

First: Traditional Functions:

- 1-Accepting deposits of all kinds.
- 2-Open current and savings accounts to facilitate transactions and encourage savings.
- 3-Providing short and medium-term loans to various economic sectors.
- Collecting, deducting, and securing commercial papers.
- 5-Financing foreign trade by opening letters of credit.
- 6-Provide guarantees and letters of guarantee to customers.
- 7-Conduct internal and external financial transfers.
- 8-Collect local checks through the clearinghouse.
- 9-Sale and purchase of foreign currency and save and transfer.
- 10-Invest in securities such as shares and bonds, either in their favor or in favor of their clients.
- 11-Rent safe safes to its customers to save documents and valuables.

Second: Modern Jobs:

The development of telecommunications technology has led to the emergence of the information revolution that opened the horizons for the transfer of capital and the expansion of the fields of trade exchange.

- 1-Manage clients' business and property and provide financial and economic advice.
- 2-Granting bank cards (service and credit).
- 3-Providing electronic banking services through the Internet.
- 4-Managing subscriptions in shares of new companies(Al Hashmi, 2007).

2.1.8 Sources and uses of funds in commercial banks:-

• Sources of Funds

Internal or self-resources:-

1-Paid-up capital:

It represents the sum paid by the owners of the bank and the shareholders in the formation of its capital, and any addition or reduction that may occur in subsequent periods, and this source represents a small percentage of the total funds received by the bank from all other sources.

2-Reserves:

These amounts are deducted from profits to meet definitively contingent circumstances at the time of reserve formation, to avoid showing the amount of retained earnings in one account. Reserves should not be overstated, otherwise, the return on total funds represented in shareholders' equity would no longer be rewarded for investing their funds, and the reserves would be either legal (compulsory) or special (optional) reserves.

3-Provisions:

Provisions are normally made to adjust the value of an asset to make it the same as its real value at the balance sheet date, according to generally accepted valuation bases for each asset type. (Provision for doubtful debts, depreciation provision, other provisions, termination provision, tax provision, and others).

4-Retained earnings:

Profits are generally held in projects for various reasons. They are part of shareholders' equity, and some see them as a means of obtaining funds for internal investment(Tuwairqi, 2000, pp. 242-246).

External resources:

1-Deposits of all kinds:-

This is what is deposited from the public dealing with the Bank. These deposits include the following:-

• Demand Deposits:

The current accounts payable to the Bank's customers are entitled to withdraw any amounts at any time by check, and these deposits are not charged any interest because they are withdrawing able at any time.

• Time Deposits:

These are deposits from which the client may not withdraw any amount until after

the expiry of an agreed period at the time of the deposit and the depositor is entitled to interest at a certain rate.

• **Deposits with the prior notification:**

These deposits are not allowed to be withdrawn by the customer until after the bank has been notified of a minimum period before the withdrawal.

• **Savings Deposits:**

These deposits are mostly related to small savers, are dealt with through a special savings book, and are set for certain interest rates by the bank following prevailing interest rates.

• **Frozen Deposits:**

Examples of this type of deposit are the cash deposits received by commercial banks for the issuance of letters of guarantee and letters of credit (Saraya, 2008, pp. 22-23).

2-Borrowing from other commercial banks and the Central Bank:

These are loans from domestic and foreign banks and loans from the Central Bank.

3-Other liabilities:

It consists of payment notes, cash deposits, and others (Al-Tuwairqi, 2000, p. 250).

● **Second: Uses of funds**

The resources of the commercial bank are used in the following areas:

-Keep cash balances:-

1-Money in the Treasury of the Commercial Bank:

The Commercial Bank maintains a cash flow of cash and paper money to meet the demand of depositors and pay the checks drawn on their deposits.

2-Cash balances deposited with the Central Bank:

The Central Bank requires commercial banks to keep a percentage of their deposits in the form of liquidity, which is present in the treasury of the Central Bank.

3-Other liquid balances:

Checks, money orders, and securities are expected to be easily converted into full cash.

-Investment in securities:

Commercial banks usually invest part of their resources in buying government bonds or securities from private-sector stocks and bonds to gain profits, as these investments have high returns but are less liquid than discounted transfers, if not easy to sell quickly, especially when Financial markets are stagnant, and may require

owners to wait until maturity, but the return is significant. Securities may be divided according to their liquidity into the following:-

1-Highly liquid securities:

Commercial banks invest part of their resources in government securities such as bonds or treasury bills. This type of securities is characterized by high liquidity, as they are highly secured from the risks and fast circulation and marketing, in addition to the banks get interested (return).

2-Low liquidity securities:

Commercial banks invest part of their resources in securities issued by projects and non-governmental institutions, such as shares and bonds issued by these institutions, and these banks get relatively high rates of return compared to government securities.

-Loans and advances granted:

This asset is considered to be the most profitable and the least liquid of the assets if the Commercial Bank does not have the right to require the customer to repay these loans and advances before their maturity date.

-Collection of commercial papers for the benefit of customers:

Commercial banks buy commercial papers at a discount (discount rate) before their due date Customer service, converting commercial papers into cash before the due date after a penalty has been deducted from the value of the bank for the payment of the value of the commercial paper before maturity (the period between the date of discount and the date The discounted value for the commercial bank represents the rate of return on this paper.

-Opening of Letters of Credit:

Is a facility provided by the bank to its client, so that it can import goods, by opening letters of credit to him to pay cash insurance at a certain rate, usually ranging (0% to 100%) increase and decrease depending on the strength of the customer's financial position, and the customer benefits from this process instead of a total discount The value of the credit from its account and its freezing in a pending account with the bank until the arrival of the goods, which sometimes takes several months, benefit from the difference between the total value of the credit and the amount deducted in the form of cash insurance, using it in various other investment aspects until the goods arrive, and the bank's guarantee in this The case is to be a shortage policy Endorsed to be valid, and the good selection of the bank to its clients and to study their financial situation is taken into account(Al Hashmi, 2007).

The Part II: Letters of Credit

2.2.1 What is a Letter of Credit?

Many of us do not know what is the Letter of Credit, what this name means the mechanism of work, and so on of those questions that revolve in his mind when mentioning this name.

L / C is a financial banking process that ensures and ensures the arrival of goods to the applicant and the value of the goods to the Beneficiary abroad. (Elafy, 2016) considers that L / C is one of the old and recognized processes in the financing of international trade. According to (Al-Deeb, 2005), L / C is any arrangement made by the Issuing bank on the instructions of the L / C to pay a value for a good to a beneficiary or another bank that pays the value to the beneficiary through the Beneficiary Bank (El Gatlawy, 2019).

2.2.2 Definition of Letters of Credit:

we can define it more simply as an inter-bank undertaking to pay the value of a good to the beneficiary at the request of the creditor to import the goods according to the pre-agreed terms and the conformity of the documents with the terms of the letter of credit. It should be noted that banks and banks play an important role in being an intermediary and guarantor between the creditor and the beneficiary (El Gatlawy, 2019).

Letters of credit are not only a banking process with specific parties entrusted to them with many tasks but are also governed by several recognized international laws and customs that operate and regulate their work, which will be specifically mentioned in the letter of credit (By the researcher, 2019).

(Ghoneim, 2015), describes it as an international banking instrument for financing commercial contracts that are governed by the applicable international rules and norms applicable to the period when these letters of credit originate.

2.2.3 Characteristics of Letters of Credit:-

- 1-It is a bank undertaking at the request of the buyer (importer) buyer.
- 2-Pay to the beneficiary (issuer) or accept the payment of bills of exchange drawn from the beneficiary.
- 3-The another bank may delegate payment or accept payment of bills of exchange.
- 4-The Another bank may delegate the handling of documents.

5-It is required to submit the required documents following the conditions of the letter of credit.

6-Documents must be submitted within the validity of the letter of credit (Abushaala, 2008).

2.2.4 Importance of Letters of Credit:-

Letters of credit in the financing of foreign trade, which today represent the framework that is accepted by all the parties involved in the field of international trade in the interest of all those exporters and importers.

_As for the issuer, he shall have the guarantee - by letter of credit - that he will receive the value of the goods he has contracted to export as soon as the shipment documents are presented to the bank which he has notified of the receipt of the credit.

_For the importer, it also ensures that the bank opening the credit will not pay the value of the goods contracted to import only by submitting documents to ship the goods in an update to the conditions contained in the letter of credit open to him(AbdalMajeed, 2013/2014).

2.2.5 Benefits of Letters of Credit:-

1.A means of conciliation and facilitation of transactions between the seller and the buyer located in different countries, thus facilitating and stimulating foreign trade.

2.Help to develop the bank balances by cash insurances requested by its customers.

3.Guaranteed payment method in international business operations, as it provides confidence between the exporter and importer.

4.Strengthening the relationship of banks and development with correspondents abroad.

5.Letters of credit provide credit facilities for both the exporter and the importer (Tuwairiqi, 2000).

2.2.6 The most important problems that can be overcome using Letters of Credit:-

1-The length of time between the date of shipment of goods and the date of payment of their value, which leads to the disruption of part of the working capital of the exporter and importer.

2-Risks of varying specifications of correspondent goods.

3-Market risk.

4-General political risks or devaluation (Abushaala, 2008).

2.2.7 Parties to Letters of Credit:-

The credit parties are represented by four main parties and sometimes more, due to the presence of several banks acting as intermediary banks:-

1-Applicant:

This means the buyer of the goods (Importer), which is the party that will perform the tasks of opening the letter of credit by submitting the required documents to open the letter of credit at the bank opening the credit (Issuing Bank). It should be noted that this party can't be called the name of the importer or buyer (Exporter or buyer) in the field of letters of credit because it proceeded from the stage of purchase to the stage further and is to open the letter of credit, and what is internationally recognized and can be called It is the light of the letter of credit (Applicant) only.

2-Beneficiary:

This means the seller of the goods (source; Exporter), which is the party that will carry out the tasks of shipping the goods on board the means of transport agreed in advance and provide the required documents by letter of credit at the Beneficiary Bank (Beneficiary Bank). It should also be noted that this party in the field of letters of credit can't be called the source or seller (Exporter or Seller) in the field of letters of credit because it went from the stage of sale to a stage further and is receiving the letter of credit accepting him to be a party to it And start the process of shipping the goods, and what is recognized internationally and can be called the beneficiary (Beneficiary) only.

3-Issuing Bank:

It is the bank where the creditor opens his bank account, and through this bank, the credit is communicated to the beneficiary and he will also make the payment to the beneficiary for the shipping documents that will be received after complying with the letter of credit conditions by the beneficiary bank or by the intermediary bank (Correspondent Bank) Occasionally, a bank may not be one of the international banks, where it does not have bank accounts in multiple currencies with the beneficiary bank or does not have the right to deal with the beneficiary bank directly, here the bank must be selected (As intermediary bank) and on his behalf in the notification of letter of credit and receipt of shipping documents and other tasks.

4-Advising Bank or Beneficiary Bank:

It is the bank where the beneficiary owns his bank account, and through this bank, the beneficiary will receive a copy of the letter of credit, and the party who will

also collect the value of the letter of credit to the beneficiary in return for submitting shipping documents after conforming with the terms of the letter of credit by the party and sent to the bank Or the intermediary bank (Correspondent Bank) according to the instructions listed and followed in return for payment to the beneficiary bank after conforming to the terms of the letter of credit again.

5-The Correspondent Bank:

This party is always used in Libya as a correspondent bank (intermediary bank), because these types of banks are international banks and have many bank accounts in most other countries, and they can report and pay the beneficiary bank easily. Is the bank that communicates the letter of credit to the beneficiary through his bank and receives and negotiates shipping documents and other tasks assigned to him and by instructions directed to him.

6-Covered Bank (The Reimbursing Bank):

This party often exists as a party to the credit. Sometimes the correspondent bank is the task assigned by the bank that opened the credit as a correspondent and negotiator of documents only, but the process of covering the value of the letter of credit is entrusted to another bank called the bank covered (The Reimbursing Bank) has an account with the bank that opened the credit. This party shall have the task of covering the value and paying it to the beneficiary's bank on the instructions of the correspondent bank.

There may be many correspondent banks instead of one correspondent bank, as sometimes the correspondent bank is not able to communicate directly with the beneficiary bank so that the correspondent bank delegates another correspondent bank with the same tasks assigned to it (El Gatlawy, 2019).

Ghoneim (2015), reminds us that in case the L / C does not explicitly provide for the handling of shipping documents by a specific bank, the beneficiary bank has the right to send them through a bank other than the one who reported the L / C to the beneficiary bank. This is clear evidence that a single L / C can have several banks acting as parties with specific functions.

7-The Buying Bank or the Negotiator of the Purchase (the trader for the documents):

The beneficiary usually submits the documents corresponding to the credit conditions to the bank the amount of the credit, which in turn buys these credits and pays their value to the beneficiary. Other than the bank that has notified the credit, the

other bank is called the buyer or negotiator bank and is also obliged to abide by the terms of the credit(El Gatlawy, 2019).

2.2.8 Independence of relations in Letters of Credit:-

No letter of credit trader can treat this instrument as a means of settling international payments, without a full and in-depth understanding of the nature of the relationships between the parties of the letter of credit, if this understanding is achieved and settled in the application, many problems and disputes can be avoided or at least a clear standard is invoked. It can be consulted if there is a dispute or misunderstanding in the practical application between the parties of the letter of credit at any stage of its implementation.

It may be useful here to point out the basis governing the relationship of each other in the letter of credit as follows:-

1-Customer order to open credit and beneficiary of credit (issuer/seller).

The basis of their relationship: the contract of sale (invoice / Proforma).

2-Relationship The work order to open the credit (buyer or importer), and the bank opening or issuer or originator of the letter of credit.

The basis of the relationship is: a contract to open the L / C

It is the basis that governs the terms and conditions and the framework that was spent between them (the light bank and the client order) in connection with the implementation of the credit for the benefit of the beneficiary.

3-Relationship between the bank issuer/originator and the beneficiary of the credit.

The basis of their relationship: letter of credit.

The letter of credit represents the framework that constitutes the limits of the Bank's obligation to the beneficiary in terms of the value of this obligation, the period of validity of this obligation, the documents to be submitted by the beneficiary, and the conditions and circumstances in which the Bank accepts its obligations towards the beneficiary.

4-The relationship between the bank originator/exporter and the correspondents involved in the implementation of the credit (reporting, consolidation, trading, payment).

The basis of their relationship: correspondence arrangements between banks and international customs and the terms and conditions of the letter of credit.

Instructions issued in the framework of the implementation of the credit (and the contract of credit or sale contract), as well as the provisions of the letter of credit itself to the extent, permitted or required by the terms of the letters of credit and usually vary from one credit to another.

What we want to emphasize here is that the relations between the different parties are completely independent and no one can interfere in the relationship between the other parties because, as we have seen, the basis for governing each relationship is different.

This meaning is confirmed by the international rules and customs in its various publications, which is referred to in Article 4a of the International Rules No. 6000 in force since July 2007(Ghoneim, 10- 2014).

2.2.9 Important concepts of Letters of Credit:-

Many ambiguous concepts may be exposed to the reader in this magazine, including the following:

-Proforma Invoice:-

This type can be defined as the main document by which the letter of credit can be opened and that will be submitted by the credit-opening to the bank-opening credit, it usually contains several points, the most important of which are: Beneficiary name and address Full, name and full address of the credit invoice, initial invoice number, date of initial invoice, description of goods, quantity, unit price with currency type, total invoice price showing currency type (Currency), payment terms, shipping terms (incoterms), Beneficiary bank details in addition to stamping And signature by the beneficiary.

-Swift System:-

It is a short word for several words in English and is meant by the **Society for Worldwide Interbank Financial Telecommunications**. English language, SWIFT was founded in 1973 in Brussels - Belgium. Seth (2017) has been likened to trying to find an appropriate definition, describing it as a network to exchange messages that financial institutions use to transmit data and instructions securely through encrypted and unified telegrams.

This system contains many encrypted messages, each message has its code, and each encrypted message has a special work to work for except in some cases. This system works on the encryption process, i.e., the bank or its employer must have the

Bank Identifier Code (BIC) which consists of 11 characters and sometimes contains numbers so that the bank can use it to send and receive The message of all kinds.

-Amendments:-

When opening a letter of credit, especially after informing the recipient of the SWIFT 700 message and accepting it, some changes to the letter of credit are sometimes made by the creditor and the beneficiary in the quantity of the goods, in the type of the goods or in some specifications, to extend the validity of the credit. Documentary and others... But no modification is made only by prior agreement between the parties (El Gatlawy, 2019).

2.2.10 Types of Letters of Credit:

There is a lot of talk about this topic from many researchers and specialists in the field of letters of credit, there is a class from the technical side of it, and there is a class of how to make the payment method. Ghoneim (2015), divides it into two types: enhanced non-cancellable letters of credit and non-cancellable letters of credit. On the other hand, we find AzqurIkr (2014), classifies all the payment methods that will be paid for the letter of credit type of letters of credit, but here we will be classified from both aspects: payment and technical change that may arise from them and this classification is common:-

First: classification of credits in terms of the strength of the bank's commitment:-

Letters of credit take different forms, which can be classified in terms of the strength of the pledge (the extent of the commitment of banks) to two types are Revocable and irrevocable credits.

1-Revocable Credit:

A revocable or revocable credit may be amended or canceled by the issuing bank at any moment without prior notice to the beneficiary. This type is rarely used as it has not been accepted in the practical application by exporters because of the damage and risk caused to them, as the cancellation of credit gives great advantages to the importer can withdraw from the obligation, or change the conditions or the introduction of new conditions at any time without the need to The beneficiary shall be notified.

However, the amendment of denunciation shall not take effect until the correspondent receives the notice given to him by the bank that opened the credit for that purpose. Receive the flag of amendment or cancellation.

2-Irrevocable credit:

An irrevocable credit can only be canceled or amended unless agreed upon by all the parties concerned, in particular the consent of the beneficiary. This type of letter of credit is often in use because it provides greater assurance to the issuer of the value of the documents when they meet the terms and conditions of the credit.

Second: classification of credits in terms of the strength of the correspondent bank pledge:

Assertive letter of credit can be divided into two sections:-

1-Unsupported Letter of Credit:

Under an unsupported letter of credit, the obligation to pay the exporter is the responsibility of the issuing bank. The role of the correspondent bank in the exporting country is merely to act as a broker in the execution of the credit against a commission. There is no obligation if one of the parties breaches any of the conditions contained in the credit.

2-Enhanced irrevocable (irrevocable) Letter of Credit:

In the Enhanced L / C, the correspondent bank in the beneficiary's country adds its pledge to the pledge of the bank that opened the credit and is obliged to pay the value in all circumstances as long as the documents comply with the conditions. Beneficiary) The beneficiary issuer enjoys more assurance and guarantees of the possibility of receiving the value of the documents.

Of course, the bank opening the credit request to strengthen the credit from the correspondent bank only when it is part of the conditions of the exporter on the importing merchant, there may be no need for that if the bank opened the credit is one of the banks of the world-famous for the greatest public confidence in them. Correspondent banks shall not enhance the credits unless there is confidence in the local bank opening the credit, in exchange for an agreed commission(Ashour, 2006).

Third: Classification of the credits in terms of the method of payment to the beneficiary seller:

The letter of credit can be divided in terms of the method of payment to the beneficiary seller (implementation of the credit) into:-(At sight payment credits, Def Deferred letters of credit, Down payment LC, Red Clause LC).

1-At sight payment credits:

This type of letter of credit depends on the submission of documents to the beneficiary bank by the beneficiary, where the beneficiary bank in its role in

examining the documents and conformity with the terms of the letter of credit, and then submit it to the bank opening the credit against acceptance and payment to the beneficiary bank.

Typically, this type of appropriation is in which the appellant has a brief business relationship with the beneficiary.

2-Deferred Letters of Credit/Acceptance:

This is the type of letter of credit in which the shipping documents are matched and then the date of payment (value date). The payment date is usually calculated from the date of bill of lading: B / L and the term is usually 90 days from the date of the bill of lading, 120 days the date of the bill of lading, etc., depending on the type of trade volume. Between the creditor and the beneficiary as agreed.

It is worth mentioning in this type of letter of credit, that it overlaps in his work with the credit department of the bank opening the credit, where the bank opens the credit facilities and the preparation of credit approval that enables the creditor to pay part of the value when opening the credit (to be determined by the management of the bank). The creditor will be able to open as many letters of credit as possible and pay the rest of their value later.

3-Down payment LC:

This letter of credit is a letter of credit with large amounts of money and money. By informing the beneficiary of the arrival and acceptance of the credit, he will open a letter of guarantee in favor of the creditor, and a copy of the contract of sale shall be attached with the letter of guarantee in return for the beneficiary receiving payment for the value of the letter of credit. Upon receipt of the letter of credit and acceptance of the "*Letter of Guarantee*", the Escrow submits an official letter to the Bank that payment of the pre-agreed value to the beneficiary, and when the goods are shipped and the documents submitted to the Bank, the Bank directly deducts the advance value and claims from L / C will be paid to pay the rest of the value after the shipment documents conform to the terms of the letter of credit.

4-Red Clause LC:

It is very similar to the prepayment approval (above) in its mechanism, but it differs from the fact that the prepayment to be paid to the beneficiary is made through the enhanced bank of the letter of credit and from his accounts, taking all the guarantees he deems appropriate to secure his right with the beneficiary (El Gatlawy, 2019).

Fourth: Classification of credits in terms of the method of payment of the buyer ordering the opening of the credit:

Letters of credit can be divided in terms of their source of funding. They may be self-financed by the applicant, or fully or partially funded by the bank that opened the credit.

1-Fully Covered Credit:

The fully covered credit is the one that the applicant covers the full amount of the bank so that the bank will pay the price of the goods to the seller upon the arrival of the documents related to the goods. In this case, the bank does not bear any financial burden because the ordering client has provided him with the full money necessary to open and execute it, or in some cases, he paid part of the amount upon opening the credit and the rest is paid when the documents are received.

However, the bank shall remain fully liable to the customer for any wrong use of the money, such as payment to the beneficiary if the credit conditions are not met or if they are delayed, and for any professional error committed by the correspondent bank in his mission.

2-Partially Covered Credit:

A partially covered credit is one in which the ordering customer opens the credit by paying part of the price of the goods out of his own money. There are various causes of such partial coverage such that the customer should cover the cover once the beneficiary is paid even before the documents arrive, or agree that the cover should be upon the arrival of the documents, or Payment is delayed until the item arrives. The Bank contributes to the risk of financing the remaining portion of the credit amount.

Conventional banks calculate interest on unreported parts, which are Forbidden Interest-based benefits that Islamic banks avoid using another alternative called participation credit.

3-Uncovered Credit:

Unencumbered credit is the credit in which the bank grants full funding to the customer within the amount of the credit. The bank pays the amount to the beneficiary upon receipt of the documents. Then conventional banks follow up with their customers to repay the due amounts as agreed upon by the deadlines and interest on the unpaid amounts. Islamic banks differ in how they finance their customers with this type of credit, where they adopt a legitimate deal called Murabaha (Ashour, 2006).

Fifth: Classification of Appropriations in Form:

Credits in terms of image and form can also be divided into four types: (Transferable Letters of Credit, Revolving Credit, Back-to-Back LC, Standby LC).

1-Transferable Letters of Credit (LC):

Usually, there is one beneficiary in the above credits, but in this type of letter of credit, the first or first beneficiary is entitled to transfer it to the second beneficiary by transferring it in whole or in part according to the method of shipment of the goods if the shipment is one. Or partial shipment, although expressly stated in the text of the letter of credit that this credit is transferable, also that the first beneficiary has the right to transfer it inside and outside his country (unless the text of the letter provides for other conditions).

One of the most important things that (Al-Deeb,2005), reminds us about this type of letter of credit is that the second beneficiary cannot transfer it to another beneficiary. International Standardization which is:-

Value-Validity of L/C and Deadline for shipment - The grace period for submission of shipping documents - Insurance - Replace the name of the L/C opening with the name of the first beneficiary to etc.....,from amendments that may be made so as not to conflict with the assets and international norms.

Value - the validity of the letter of credit and the deadline for shipment - the grace period for the submission of shipping documents - insurance - the replacement of the name of the letter of credit or to the name of the first beneficiary to,etc ... of the amendments that can be made so as not to conflict with international assets and customs.

2-Revolving or Circular Credit (Revolved LC):

This type of letter of credit is in which the creditor has the desire to purchase a large number of goods in a certain time, but in a period that may be long and specific. In this type of credit, there are regular and regular commercial transactions between the creditor and the beneficiary, it is characterized by its fragmented form, that is, each payment will be paid and shipped individually and automatically renewed, and it is also the most important characteristic is that it does not require amounts Financially significant, that is, you can pay for each shipment separately without paying full value for all shipments at once.

This type of credit is divided into two types: Cumulative Revolved LC, and Non-cumulative Revolved LC, it is the consolidated circular credit that obliges the credit

initiator to calculate the previous payment for which no credit has been opened in the next installment as agreed payments. For uncollected credit, the creditor is not obliged to calculate the previous installment for which the credit has not been opened (El Gatlawy, 2019).

3-Approval of the interviewer/assistant / Linebacker (Back-to-Back LC):

This type of credit can be said to contain two (02) separate credits. This type arises when the goods ordered by the credit are not able to provide either due to the inability of the beneficiary to do so and lack of capacity. Or the lack of goods at the time when the opening of the letter of credit or going through a physical condition sung and unstable, and the beneficiary does not want to miss this transaction and at the same time, he does not want to know the opening of the credit order. Once the beneficiary has received the original letter of credit, he shall instruct his bank to open another letter of credit to complete and prepare the goods required from the creditor. One of the main prerequisites of the second credit is that the letter of credit is irrevocable and reinforced, taking into account the above-mentioned conditions. This new (second) Credit is a guarantee of the first credit.

(Ghoneim, 2015), reminds us that one of his conditions is also that: of course, the value of the new credit will be lower than the original credit because the beneficiary collects his profits, and his period is also less than the period of the original credit cycle to enable the beneficiary to prepare the goods in time and ship The goods to the credit opening before the original credit expires.

The advantage of this type of credit is that the beneficiary can find a solution to the processing of the goods promptly, as in the second credit will be determined the period of the end of the second credit before the end of the first credit and from which the beneficiary can ship the goods to the opening of the credit promptly, but do not forget that there is Risk to the beneficiary if the beneficiary in the second credit did not comply with the specified time or there is a dispute in the quality of the goods as the goods agreed in advance.

4-Standby LC:

Some call this type of credit in the name of the guarantee, which is closer to the letter of credit than the letters of credit, as it is the opening of this letter of credit is a pledge from the bank committed to the beneficiary towards (providing a service or work). The documents of this type are different from the shipping documents issued by the other letters of credit as agreed upon, where the beneficiary shall officially

submit a certificate stating that the creditor has breached the commitment and the terms of the credit along with other documents stating that. Thus, the value will be paid to the beneficiary upon his legal request and must be made within the validity period of the letter of credit (El Gatlawy, 2019).

5-Local Credit:

This type of letter of credit is usually used in our country in the form of official letters from all parties of the local credit, in addition to it is usually between a government company (public) and local companies, and Used in the construction and equipping of buildings and maintenance works, or the provision of equipment and other equipment.

Local Credit starts by submitting the credit applicant with a written request formally requesting the opening of a letter of credit for a company to equip buildings with equipment such as a university or so. The bank will study its application. This letter contains several data including the name of the credit, the name of the beneficiary, the date of validity, the value and number of the letter of credit, as well as other data from 2007.

After the beneficiary accepts the local credit from his bank and after the bank is officially notified of the accrediting bank, which is the announcement of the activation of the local Credit. By paying the value to the credit provider for his services or so, the payment process is also as agreed upon either in batches or one payment.

The funny thing about this, sometimes the bank opening the credit and the beneficiary bank is the same, that is, the opening the credit and the beneficiary keeping an account for each in the same bank (El Gatlawy, 2019).

Sixth: Classification of Appropriations by Nature:

Letters of credit can be divided according to the nature of the credit to (export credit and import credit):-

1-Export Credit:

It is the credit opened by a foreign buyer in favor of the exporter inside to buy his local goods.

2-Import Credit:

The credit is opened by the importer in favor of the exporter abroad for the purchase of a foreign good (Ashour, 2006).

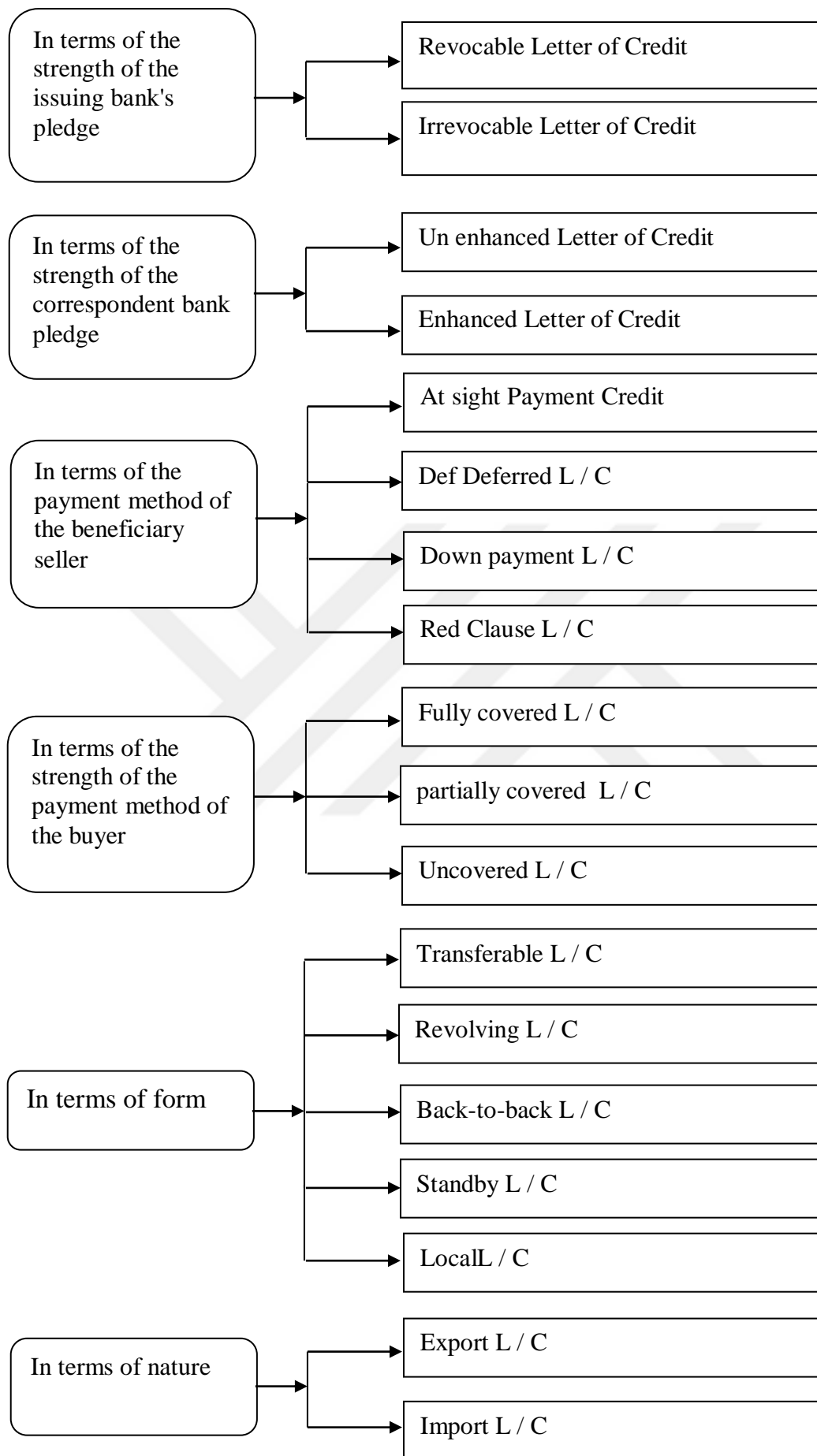


Figure (2.1): Shows the types of Letters of Credit.....(Source:Ashour, 2006).

2.2.11 Method of Opening and Payment of Letters of Credit:-

1-Opening a Letter of Credit for importation:

-The local importer shall contact the foreign exporter either directly or through the exporter agent or through the Chambers of Commerce to agree on the transaction.

-The local importer requires the foreign exporter to send a preliminary invoice (Proforma Invoice) from several copies.

-The local importer, along with a copy of the preliminary invoice (and import license in some countries), shall submit to his bank a request for opening a letter of credit in favor of the foreign exporter.

-The bank shall verify the authenticity of the client's signature on the application for opening the credit.

2-Opening a Letter of Credit for export:

Each letter of credit opened by the local bank to import goods is considered by the correspondent of this bank export credit, as well as the types and how to review the documents are the same, and the reporter may request when sending his credit to the local bank to inform or strengthen the beneficiary, and the responsibility of the local bank in both cases are summarized steps to open a credit Exports are as follows:-

-Letters of opening letters of credit are received from correspondents abroad. According to their instructions, the local bank shall notify the beneficiary of the letter of credit only, or notify and reinforce it.

Explicitly stated in the letter addressed to the beneficiary, the beneficiary shall be notified of the conditions of the letter of credit (either by reprinting the letter of credit conditions on the bank's publications, by sending a photocopy, or by making copies of the letter of credit in case of sending more than one copy) with a letter from the bank to the beneficiary that the letter of credit is considered enhanced by the bank.

-To report to the reporter that the credit has been communicated to the beneficiary (in case of reprinting of the credit on the bank's publications, it is preferable to attach a copy for review).

-If the credentials received from the correspondent are ambiguous or vague, and to avoid any disagreement when submitting the documents, the editor should immediately upon receipt of the letter of credit and request an explanation (although this does not prevent the credit to be communicated to the beneficiary in principle until the arrival of the interpretation of vague data therein).

-The local bank may receive a telegram by opening a letter of credit. First, the confidential number of the telegram should be verified and a copy of it shall be sent to the beneficiary with the necessary reservation regarding the texts until the reinforcement arrives from the correspondent. It is preferable to notify the beneficiary by telephone for fear of delayed mail the original.

-A letter or telegram may be sent to amend the letter of credit. The beneficiary must be notified immediately and the reporter notified of his application (Ashour, 2006).

2.2.12 Types of bank commissions in the field of Letters of Credit:-

1-Reporting commission:

It is the commission charged by the bank against the notification of credit to the beneficiary.

2-Payment commission:

The commission is required by the payer bank when buying or paying the value of the documents to the beneficiary.

3-Promotion commission:

It is the commission charged by the correspondent bank when the importing customer's bank asks it to enhance the credit.

4-Amendment commission:

The commission is charged by the correspondent bank for any modification of the contents of the credit at the request of the bank opening the credit.

5-Coverage commission:

It is the commission charged by the covered bank to cover the value of the credentials at the request of the opening bank, this is done in the absence of a local bank account with the advising bank.

6-Acceptance Commission:

This is the commission requested by the enhanced bank upon accepting a time withdrawal of the value of the documents for payment at a later date (Abdullah, Trad, 2006, p. 290-291).

2.2.13 Issuing Letter of Credit:

The mechanism by which the letter of credit process can be summarized by the following and the role of SWIFT messages in this process as follows:-

1_The agreement between the exporter and the importer on the specifications of the goods, number, size, price, method of payment, and other conditions, this agreement may be through mail, fax, telex, or personal visit.

2_The importer shall open a letter of credit in his bank for the benefit of the exporter at the agreed value, where the importer shall fill in the application for opening the credit which includes several items such as the beneficiary's name (source), address, number and specifications of the goods agreed upon, the value of the credit and other important information. The importer also provides the required collateral or pays the necessary insurances to the local bank.

3_The local bank contacts his correspondent abroad and informs him of the details of the letter of credit and the name and address of the beneficiary.

4_The correspondent bank abroad to contact the beneficiary and inform him that a letter of credit has been opened in his name by the importer and tell him the details of this credit.

5_The beneficiary who shipped the goods (produced or assembled or purchased readily from the market) according to the required specifications and then shipped by the means agreed.

6_The beneficiary who shipped the goods shall submit the ownership documents and documents proving the shipment of the goods to the correspondent bank abroad, and receive the value of the goods shipped from the bank.

7_The correspondent bank will send the required documents to the local bank and record the value of the letter of credit.

8_The local bank receives the shipping and ownership documents and contacts the importer who comes to the bank to receive the documents pay the value of the goods and close the letter of the credit file.

9_The local importer to clear the goods and pay the fees and customs required and called the message Swift used in this type of banking operations letters of credit letters known as letters (700) (Abushaala, 2008).

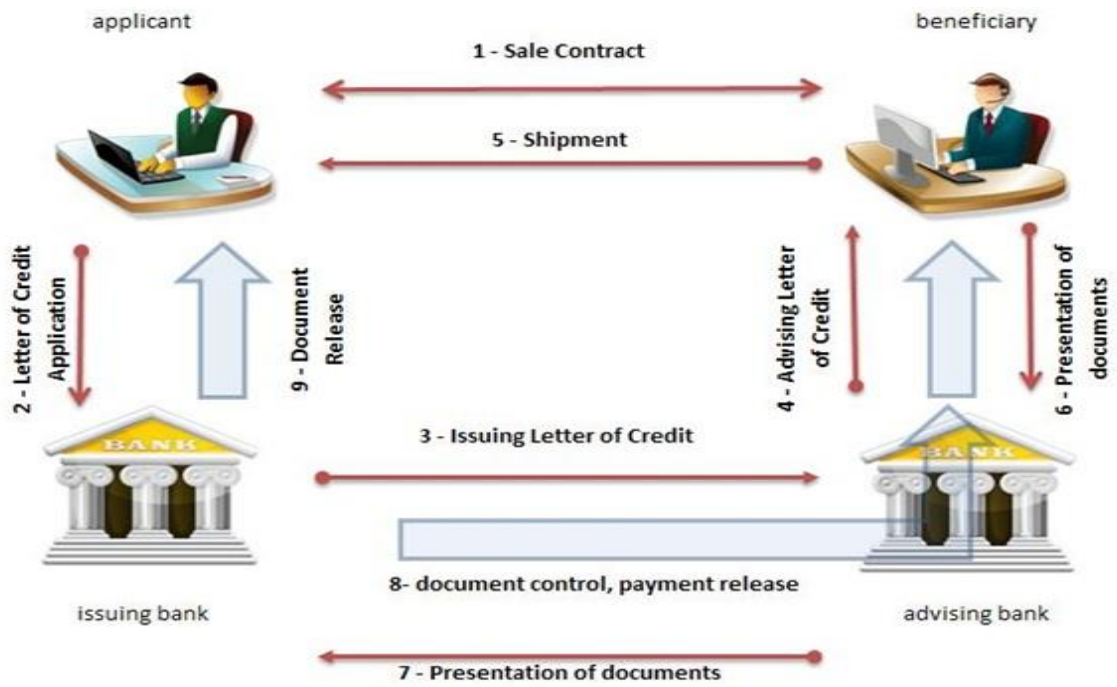


Figure (2.2): (How to issue the Letter of Credit)...(Source: www.letterofcredit.biz)

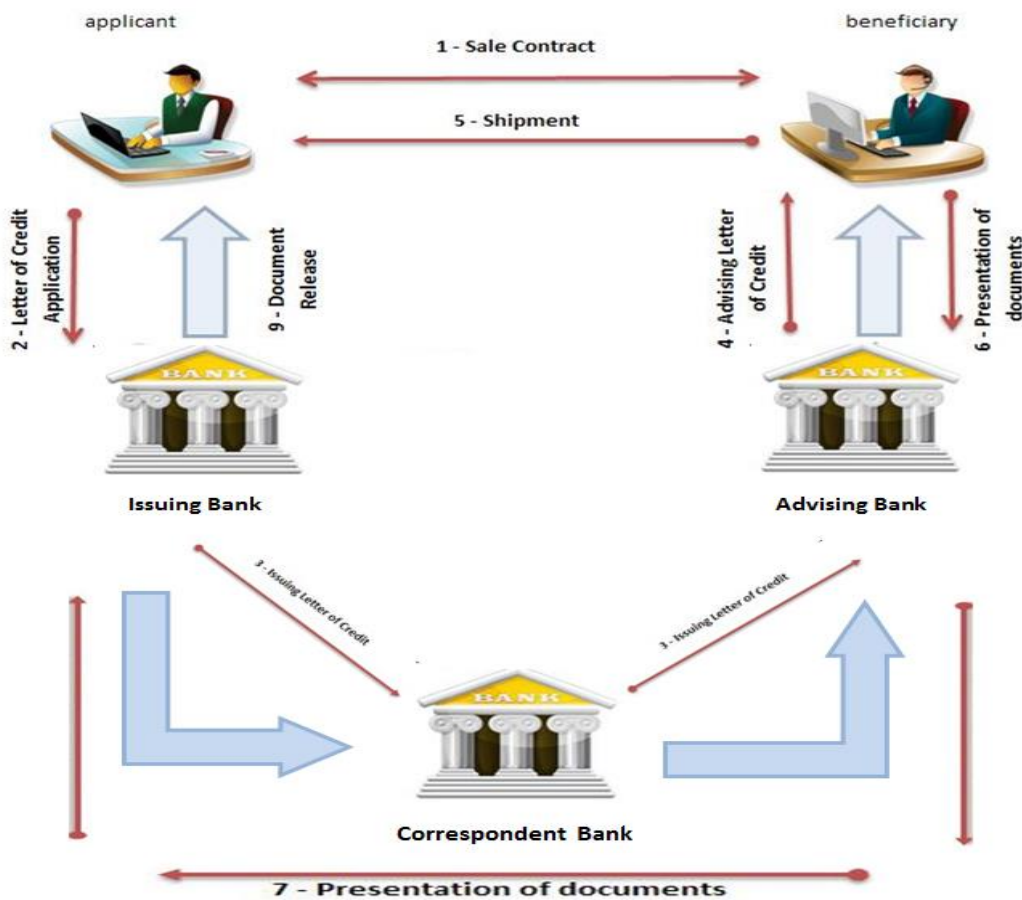


Figure (2.3): Shows the Letter of the Credit cycle in the presence of a correspondent Bank

(Source: www.letterofcredit.biz)

2.2.14 SWIFT Letter in Letter of Credit (FIN700):

One of the most important messages that pass through the letter of the credit cycle is the MT700, which, after being sent to the beneficiary bank and accepted, an explicit and legal declaration of commencement of the life cycle of the letter of credit will be successful or not.

MT700 contains many fields (numbered), each field is concerned with a specific function and can't be used in other tasks, these fields contained in this message are consistent with the data and conditions required to open any letter of credit of all kinds (Ben Salah, 2010).

MT 700 Issue of a Letter of Credit

O: Optional		M: Mandatory
Status	Tag	Field Name
M	27	Sequence of Total
M	40A	Form of Letter of Credit
M	20	Letter of Credit Number
O	23	Reference to Pre – Advice
O	31C	Date of Issue
M	40E	Applicable Rules
M	31D	Date and Place of Expiry
O	51a	Applicant Bank
M	50	Applicant
M	59	Beneficiary
M	32B	Currency Code, Amount
O	39A	Percentage credit Amount Tolerance
O	39B	Maximum credit Amount
O	39C	Additional Amounts covered
M	41a	Available with...By...
O	42C	Drafts at
O	42a	Drawee
O	42M	Mixed Payment Details
O	42P	Deferred Payment Details
O	43P	Partial Shipments

O	43T	Tarns Shipment
O	44A	Place of Taking in Charge/ Dispatch from.../ Place of Receipt
O	44E	Port of Loading / Airport of Departure
O	44F	Port of Discharge/Airport of Destination
O	44B	Place Final Destination/For Transportation to.../ Place of Delivery
O	44C	Latest Date of Shipment
O	44D	Shipment Period
O	45A	Description of Cods and / or Services
O	46A	Documents Required
O	47A	Additional Condition
O	71B	Charges
O	48	Period for Presentation
M	49	Confirmation Instructions
O	53a	Reimbursing Bank
O	78	Instructions to the Paying/Accepting/Negotiating Bank
O	57a	Advice Through Bank
O	72	Sender to Receiver Information

Table (2.1): Shows the Swift Letter of Credit (MT 700)

(Source: SCRL Swift, 2002)

2.2.15 Information in Letters of Credit:-

L / C should contain certain information related to goods, documents, shipping, etc.

1-The name and full address of the importer (applicant for opening the credit).

2-Date of adoption.

3-The bank's credit number.

4-Type of letter of credit.

5-End of letter of credit - Place of Expiration.

6-Name and full address of the beneficiary.

7-Reporting method (mail, fax, telex, etc.).

8-Credit value.

9-Ratio of allowable increase/decrease.

10-Bank amount/booster.

11-Determine the period of delivery of documents (from the date of shipment).

- 12-Who bears commissions and expenses.
- 13-Payment Details.
- 14-Is partial shipping allowed or not.
- 15-Is phased charging allowed or not.
- 16-Port of shipment/shipping country.
- 17-Port of arrival/country of arrival.
- 18-Deadline for shipment and period of shipment.
- 19-Description of the goods.
- 20-Documents required for submission.
- 21-Terms of delivery.
- 22-No additional conditions.
- 23-Any additional documentation.
- 24-Letter of credit body.
- 25-Payment Instructions to the Amount / Booster Bank.
- 26-Name of correspondent / enhanced bank.
- 27-Is the letter of credit incomplete or not, and in the absence of mention, the letter of credit is irrevocable(Ghanim, 10-2014).

2.2.16 International Trade Terms (Terms of Delivery, Incoterms 2010):-

1) EXW - Ex Works (from the factory):

Shipment in our factory.

2) DAP - Delivered At Place (free to the site):

For the country of arrival deliver the goods at the specified location.

3) DDP - Delivered Duty Paid (free including duties):

Delivery of goods in the country of arrival including customs.

4) FCA - Free Carrier (freight-free to carrier):

Deliver the goods to the shipping port.

5) CPT - Carriage Paid To(Fare paid):

It shall be applied in the different types of transport regardless of the means of transport. The responsibility of the seller shall end when he delivers the goods in the warehouses of the carrier and pay their wages to the final destination.

The seller shall bear the processing of export requirements and the responsibility of the buyer shall commence from the moment the goods are delivered at the warehouses of the carrier.

6) CIP - Carriage Insurance Paid To:

Delivery at the port of arrival + Insurance.

7) DAT - Delivered At Terminal:

Delivery at the port of arrival.

8) FAS - Free Alongside Ship:

Deliver the goods from the truck at the shipping port.

9) Delivery on the ship (at export port) FOB - Free on Board:

The goods shall be carried onboard the vessel at the shipping port at the seller's expense and the responsibility of the buyer shall begin when the goods are loaded with the crane at the level of the ship's edge where the buyer is responsible for any damage or damage caused to the goods after the ship's edge level. The export procedures in the official country of origin shall be borne by the seller.

10) The price of the goods and freight on the seller: CFR - Cost and Freight

The seller shall bear the costs of transporting the goods from his warehouses to the shipping port and from the loading port to the port of arrival. The seller shall bear the expenses of preparing the original official documents for export. The buyer shall be responsible for any damage or loss that may befall the goods after loading.

11) Price, insurance, and freight on the seller: CIF-COS, - Insurance & Freight:

Liability of the seller as in CFR except that the seller pays the insurance premium on the goods (normal coverage). If the buyer requests additional coverage, it will be on his account (Abdullah, Trad, 2006, pp. 283-284-285).

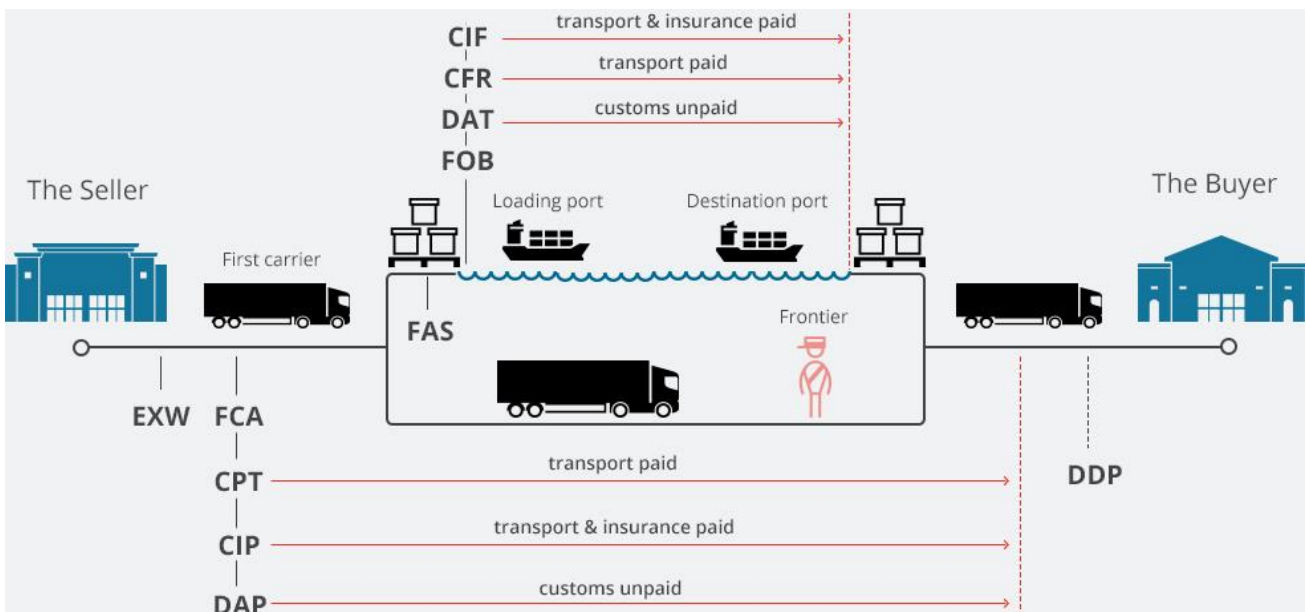


Figure (2.4): Illustration of how delivery terms work in the shipping process (Source: <http://verex.eu/en/useful-information/71-incoterm>)

2.2.17 International uniform customs and practice for Letters of Credit (UCP):

Letters of credit are a very wide area and seat, where many problems and obstacles would increase the risk of attitudes between the parties to the letter of credit. In this sense, the International Chamber of Commerce (ICC) was obliged to work quickly to enact a law that protects the rights of each party by letter of credit and obligates each party to its obligations towards the other party. Assured us (Menji, 2017) emphasized the need to include this type of law in each L / C so that each party guarantees its right and also to refer to it in case of any disagreements or misunderstandings in any item of L / C.

These international norms and laws serve as an organizational structure for the letter of crediting cycle, giving and defining the respective functions of each party within a given legal framework. In 1933, Dan Tyler (Vice-Chairman of the Committee on Banking Technology and Practices established by the International Chamber of Commerce) prepared the UCP Act, relying on several primitive versions of 1920. He explained some paragraphs and also tried to link Several paragraphs with each other and worked on a brief explanation of some paragraphs.

Dan Tyler was able to shed light on a new basis that puts letters of Credit a haven for international trade. That the latest version of UCP600 has been reached for the year 2007.

If we look at the content and contents of UCP600, it is formulated in a legal form to guarantee the right of each party to the letter of credit and to coordinate the work among these parties. Thus, understanding the UCP600 international norms is very important for those who want to know the true and actual meaning not just for each sentence but for each word. Understanding and real knowledge is through the practice of letters of credit and continuous knowledge in the field of letters of credit and try to learn all new and useful in this area (El Gatlawy, 2019).The International uniform customs and practice for letters of credit (UCP) Has been issued by the International Chamber of Commerce, which was established in 1919 and is currently located in Paris. The International uniform customs and practice for letters of credit (UCP) were established for banks to deal for many reasons including:-

1_Protection of banks from responsibilities as a result of dealing with letters of credit, the fact that banks are working to service or finance those operations and therefore expect to be away from any disputes or disputes that may arise between the parties to the contract of sale.

2_The banks are responsible for the documents and not for the goods (banks deal with the correct documents and do not deal with the right goods), they are not concerned with the contract of sale between the buyer and the seller has been poorly implemented through credit or not.

3_Bank's are not responsible for the sufficiency of legal documents or even authenticity or falsification, it is known that these International uniform customs and practice for letters of credit (UCP) are not commercial laws, but customs are agreed to be used in the commercial contract and letter of credit and then become binding for all parties, has been developed materials By the ICC Banking Committee so that the content of any article of the Uniform International Customs does not often conflict with the content of any commercial law in the countries of the world. Documentary and bulletin instruments in force from 1993 to 2006 are UCP 500, and since 2007, UCP 600 has entered into existence. Indeed, the new rules of international trade in international banks were implemented on 1 July after the move to the new version of the UCP 600, which includes facilities and speed of implementation rather than the old version (UCP 500) (Al- Sisi, 1998).

2.1.18 Shipping documents required in the Letter of Credit:

The order of documents in the appropriations generally depends on the class of goods, the means of shipment, the place of shipment, and the place of arrival.

The International Standard Assets and Customs Norms for letters of credit (No. 600 UCP) stipulate that all parties involved in the credit process deal with documents and do not deal with goods or services to which they relate. (El Gatlawy2019),The shipping documents issued by the L / C are one of the bases in the collection of the value of the L / C, as the payment process will provide the shipping documents against payment or specify the date of payment at the due date (Value date), where we can classify the shipping documents into two types:-

A-Main Documents:-

Some documents are essential in any letter of credit and are indispensable or canceled from the list of required shipping documents as follows:-

1 Commercial Invoice:

The invoice is one of the important documents that are required in all letters of credit and be issued by the beneficiary in the credit and show the value of the goods sent and the quantity and specifications of these goods.

Authentication of commercial invoices is normally required from the consulate of the country of origin, and failure to certify such invoices from these consulates exposes the importer to a fine deducted from the value of the documents upon arrival.

2_Certificate of Origin:

The certificate of origin is required in all credits and issued by the Chamber of Commerce in the beneficiary country and the purpose of this certificate is to know the place of production or manufacture of imported goods must be certified by the same certification in the commercial invoice. It is worth mentioning that the goods imported from different places are subject to different customs rates (Abdullah, 1987).

3_Bill of Loading :

It is a maritime document proving the shipment of goods on board the ship, and definitive evidence of the existence of goods in the letter of credit, and the most important requirement in a document in the field of letter of credit (especially in banks operating in Libya) to be ordered by a bank that opens the credit, and it contains Shipper name, order, party to be notified, ship name, shipping port name, port of discharge, description of goods and L / C number, container numbers and numbers, total gross and net weight.

-Trucking Certificate:

This document shows that the goods are on board the trucks or train, they contain almost the same data as in the waybill but have some radical differences such as The place of shipment, the place of delivery or unloading, the means of shipment (truck or train) and signed and sealed by the shipping office.

-Air Waybill Bill of Loading:

It is a cargo document that proves that the goods are on board, they contain almost the same data as in the sea waybill but have some drastic differences such as airport cargo, airport delivery or unloading, flight number data, and be signed and stamped by the air cargo office.

A single L / C may be several bills of lading depending on the terms of the credit, whether or not split. The shipping document of all kinds is one of the most important documents of shipment in the L / C which poses a major risk to the parties of the credit in case one of the parties of the credit (the opening of the credit & the beneficiary) or both.

The mode of transport may also be another type, not in its maritime form (ship or ship). Inland shipping, the TRUCK CONSIGNEE is issued, while in the air it issues

an airway bill of lading (AIRWAY BILL OF LADING), which is very close to the contents of the sea waybill (Gatlawy, 2019).

4_Weight Certificate:

This certificate is required in the credits that rely on goods such as sugar, rice, tea, and the like and are usually issued by the beneficiary as can be issued by institutions specialized in weight. The buyer accepts that the certificate should be issued by the beneficiary himself because the weight in the certificate of weight usually corresponds to the weight in the text of the bill of lading issued by the carrier.

5_Packing List:

This list is usually requested when the goods are not homogeneous to know the contents of each package. For example, when importing household items, clothing, and shoes in the same shipment, the parcels are given serial numbers and the parcel numbers and contents are mentioned in the packing statement. For example, knowing that parcels from 1-20 contain clothes, makes it easier for government authorities to know the contents of the parcels and impose the correct customs duties without the need to open all packages. This list shall normally be issued by the beneficiary unless the credit requires otherwise.

B-Supplementary Documents:-

They are shipping documents that depend on determining their quality and content based on the type of goods essentially, they vary from one commodity to another, they are many and varied, and the bank may be accredited by the light Credit to ensure the quality and quality of the goods entering his country, especially in the field of Food and other sensitive goods, including:-

-List of Specifications:

If the goods depend on the size and measurement such as wood, iron, and the like, it is usually required to specify the specifications of the documents to show the sizes and measurements of the goods in terms of length, width, thickness, and any other specifications and this list is usually issued by the beneficiary (Abdullah, 1987).

-The Declaration of Entry to Ports (Shipping Declaration):

This is an official document issued by the shipping line on which it was shipped. This type of document in Libya is considered one of the main documents in the letter of credit.

-Health Certificate:

Is a document that the goods are fit for human consumption and so on.

-Quality Certificate:

A document that indicates the quality of the goods.

-Non-Radio Activities Certificate:

A document indicating that the goods or raw materials are free from atomic radiation and determining the percentage of atomic radiation therein.

-Inspection Certificate:

This is a document issued by the inspection companies stating whether the goods conform to the specifications or not. The inspection companies may be local or international to request and assign (the credit) in this regard, which is what is urging at this time from the banks. Operating in Libya at the request of the Central Bank of Libya.

Many other documents may be agreed upon and included among the documents required by the letter of credit, including Certificate of conformity, certificate of specifications, quarantine certificate, a certificate from the register of exporters in the beneficiary's Chamber of Commerce and Industry stating that the beneficiary is officially registered by the party and many others ...

Freight documents are a major concern for the parties involved in the letter of credit, namely (bank opening credit & beneficiary bank or correspondent bank), where dedicated staff and sometimes special sections of shipping documents to match the shipping documents issued by the letter of credit. There are also several international rules and regulations issued by the International Chamber of Commerce (**International Standard Banking Practice = ISBP**), which are international standards for the examination of shipping documents. There are many researchers in this field, where many of the literature in this regard, including Ahmed Ghoneim (2014) in his book (standards of international banking practices for the examination of documents in the field of letters of credit ISBP 745E)), which speaks extensively on the risks of documents Shipping and inspection mechanism.

Other documents are required in the appropriations as needed, such as analysis certificate, evaporation certificate, agricultural certificate, etc (Gatlawy, 2019).

Chapter 3: The Part I

Examination of Shipping Documents

3.1.1 Examination of shipping Documents (Documents Handling) and Procedures of Registration:

The process of document verification derives its importance as one of the most important and most accurate stages of the letter of credit, like the bank and other parties involved in the credit deal with the documents and not the goods. The bank must open the credit, authorized to pay, accept, or purchase, to examine all documents and documents when Receiving it with reasonable care to ensure that it conforms to the terms and details of the credit.

3.1.2 Is the examination of shipping documents science or art?

It is an art that certainly depends on innovation, initiative, navigability, personal skill, and the common sense of the examiner, depends more on it than on written theories or practical controls, and because it is an art that revolves in an open horizon that is difficult to control or packaged in abstract rigid molds, even if the previous Processing, such as checklists, is an art that is not limited by strict controls but is characterized by the personality of the examiner, his vision and innate readiness, and his ability to deal with different situations and sometimes manage differences of opinion on the resolution of some differences. Thus, the principle of verbatim examination of Principle of Strict Compliance becomes increasingly important as each party carries out its full responsibilities and disseminates the culture of letters of credit, which positively reflects on the efficiency of the inspections, with the formulation of a proposed approach for the phased handling of credit as a solution to the problem of examining the shipping documents and reducing their rejection rates, So the credit is treated as follows:-

- ✓ Pre-certification stage.
- ✓ The stage of issuing the credit.
- ✓ Review and evaluation phase and request amendments if needed.
- ✓ Submission and examination of documents.
- ✓ The stage of implementation of the credit payment/acceptance/circulation/pledge to pay forward(Ghoneim,09- 2014).

Document auditing assets are global, but some organizations use their reference when auditing documents (checklists or check reports).

It is generally accepted that the audit began with the following steps:-

- 1_ Check all required documents to be submitted within the deadlines stipulated in the letter of credit.
- 2_ Audit the required documents based on the international standard assets and customs and the standard of international banking practices.
- 3_ Check documents horizontally in terms of the compatibility of their data with each other and vertically checked for the compatibility of the data of each document separately with the terms of the letter of credit so that the letter of credit requirements for each document on those documents and check the conditions of the document on the conditions of the letter of credit in case of a lack of data of one of the documents submitted.

If the credit does not stipulate the period of trading documents between the buyer and seller, banks will not accept the documents submitted to them after 21 days after the actual shipment date and within the validity period.

When reviewing and checking documents, the following conditions shall be observed:-

- 1_ All documents and policies received homogeneous with each other and conform in terms of the type and number required of each document with the terms of the letter of credit.
- 2_ Ensure that the credit is still valid and has not expired yet, and make sure that the amount of credit or balance allows the payment of the value of the documents submitted.
- 3_ Ensure that the goods and their descriptions in the invoices exactly match the quantity and descriptions mentioned in the text of the credit, and make sure that the price in the commercial invoice is the same as the price mentioned in the letter of credit and that the basis on which the price accordingly stated in the invoice such as (CIF) or (CFR) Or (FOB) and that port of person as well as the port of arrival as stated in the letter of credit.
- 4_ If the credit is deferred payment against a time withdrawal, it must be confirmed that the withdrawal issued by the beneficiary is drawn on the same person appointed in the credit and that the withdrawal is following the terms of the credit and carry the number of credit-related to it.

5_Ensure that the documents are duly signed from their sources and that the commercial invoice and certificates of origin are certified by the official authorities such as consulates and chambers of commerce.

6_If the provision allows the shipment of goods to be fragmented, it is necessary to ensure that the withdrawal value attached to the documents is equivalent to the amount of the goods shipped.

7_The bills of lading shall be clean and shall not carry any reservations and shall be subject to the order of the local bank. The date of the policy shall not be later than the date of the bills of lading (Safari, 2004).

3.1.3 General rules for checking shipping documents:-

1-The examination shall be carried out during the internationally recognized period:

It is following the international norms applicable 5 working days of the bank from the day after the bank received the shipping documents, does not mean that the examination process requires that the entire period, but is intended not to exceed the protection of the rights of different parties and to settle their financial and legal positions as soon as possible, especially the beneficiary of L / C The bank is the port of credit by payment, acceptance or debit.

2-The apparent examination of documents to ensure that they comply with the conditions of opening the credit:

The Bank is not responsible for looking outside documents and is not allowed to deduce, estimate or interpret concerning the authenticity of the documents or not, and in this regard, the Bank shall exercise reasonable care following the accepted international rules and practices in this regard, namely the care of a careful man with experience and expertise.

3-Restrict the examination to documents:

In other words, the bank should not look outside the documents as presented to determine whether they conform with the credit or not.

4-Care of the careful man:

The Bank's responsibility in this section is based on its expertise, expertise, and professional cadres specializing in the examination of shipping documents.

5-The integrity and performance of each document:

That is, no document should contain deficiencies, deficiencies, or defects, because the other documents submitted with it may cover these deficiencies or deficiencies.

Therefore, the document should be presented in the manner stipulated in the letter of credit and include all the basic data established in custom, practical application, and common current transactions. The document can perform the function that the text has to provide with shipping documents.

6-No inconsistency of the data contained in the various shipping documents in the sense of inconsistency of the documents.

7-Ensure that the documents represent a conformity presentation in the concept of international rules 600.

8-Submission of documents during the validity dates by credit.

9-Verbatim in the implementation of the instructions of the client order(Ghoneim, 10-2014),

3.1.4 General stages of the examination of shipping documents:

The first stage:-

-The documents were submitted within the value allowed by the credit, whether in whole or in part.

-Ensure that documents are submitted and shipped for the goods and then executed according to the dates specified in the approval.

-Documents must be submitted in full.

-No conflict between the documents of each other.

The second stage:-

-The extent of the obligation to ship in one or part batch, as well as discharge by road or not following the conditions of credit.

-The documents bear the signatures and ratifications required by the credit.

-Documents must comply with the conditions of credit.

The third stage:-

Detailed examination of the data of each document independent of the rest of the documents for conformity in detail with the terms of the letter of credit.

It should be noted that some differences are commonly found in shipping documents:-

1.Failure to submit all required documents in the credit.

2.Partial shipment instead of the total shipment of credit value.

3.Expiration of the credit for shipping.

4.Submission of documents after the end of the credit or the expiry of the period specified for submission of the credit(Ghoneim, 10- 2014).

3.1.5 Deadline for shipping and submission period the documents:

Letters of credit provide for at least three deadlines:-

- 1_The date of opening the credit, and in the absence of determining the date of entry into force of the credit, the date of issuance is the effective date.
- 2_The last date for the beneficiary to ship the goods, and if not specified explicitly be the same expiration date of credit.
- 3_Deadline for the beneficiary to submit the required documents (expiration date of credit).

The beneficiary has a deadline to ship the goods from the period from the date of notification of the credit until the last date of shipment stipulated in the credit and is committed to submitting the required documents to the bank named in the credit until the deadline for the validity of credit, the important question is:

What is the deadline for the beneficiary to deliver the required documents to the bank named in the credit after the shipment?

The answer is divided into two parts:-

- 1_A certain period must be added as a condition in the credit (e.g. five days) during which the beneficiary must submit the documents to the bank named in the credit. The credit is provided for the following paragraph:

(The required documents must be delivered within five days of the shipment date and the validity of the letter of credit). This period should preferably be commensurate with those stipulated in the letter of credit between the last date of shipment and the validity so that there is no contradiction between the conditions of the letter of credit.

Here, we find that the beneficiary must deliver the required documents within five days after any shipment date of the goods, even if he shipped the goods at the beginning of the validity of the credit, otherwise the bill of lading submitted after the period of submission of documents and during the validity of the credit will be an obsolete bill of lading Reject documents.

- 2_If the credit does not provide for such a period, banks will not accept the documents submitted to them after the lapse of 21 days after the date of the actual shipment and during the validity of the credit.

- 3_This also means that the period of submission of documents after shipment (Period Of) may be reduced or extended to a period less than or greater than 21 days in the

letter of credit provided that this is specified in a special provision in the letter of credit.

This necessity is required by the interest of the seller so that he can prepare the required documents on the credit and also the interest of the buyer so that he does not suffer from the arrival of goods before the arrival of the required documents so that he can take out his goods duly and not incur storage fines as a result (Sabounji, 2007).

3.1.6 Conditions relating to shipment dates in the credit and quantities:

There are common periods that explain the words in the letter of credit and refer to the history, such as:-

1_The period of letter of credit shall be from the date of issue if the period is issued for a month or so.

2_Deadline for submission of documents: - Is the date after which does not accept the submission of documents and if submitted documents after this date are considered the question.

3_If the deadline for submission of documents is not specified, the last date is after (21 days) from the issuance of the shipping document.

4_If the last day for the delivery of documents on the holiday is considered the first working day is the last day to submit the documents.

5_If the credit includes the word (immediately, as soon as possible, or similar) concerning the delivery of goods, it is considered that the shipment must be carried out within (30) days from the date of opening the credit.

6_Utter in the date (on) about the date (about): means to be shipped within (5) days or after ((5 days from the date specified in the credit.

7_Beginning of the month: from the first day until the tenth day of the month, including the tenth day.

8_Mid-month: from the eleventh day to the twentieth day, including the twentieth day.

9_End of the month: from the twenty-first day to the last day of the month, including the last day.

10_First half of the month: from the first day to the fifteenth day of the month, including the fifteenth day.

11_Second half of the month: from the sixteenth day until the last day of the month, including the last day.

12_The credit end date shall not exceed (21) days from the date specified for the actual shipment/shipment.

13_About ((about means allow an increase or decrease of 10%)) of the value of dependence (Al-safri, 2004).

3.1.7 Originals and Copies of Documents:

Unless the credit is required otherwise, banks will accept documents as if they were original if they were established in one of the following ways:-

- Scanners system, or using a computer.
- Carbonized copying.
- Using the original stationery of the issuer of the document.

Provided that these documents are marked as original or signed, or that the process of signing the document can be in handwriting or by stamping or symbols or any electronic authentication method, and must distinguish between copies and copies of documents, as banks accept copies documents were required when such copies are installed with an additional identification clip or are not marked as original, and there is no need to associate copies of documents with a signature.

Attention should also be given under the terms of the letter of credit to how to request the originals and copies of documents in terms of:-

- Requesting one commercial invoice will mean one original copy of the invoice.
- Requesting a commercial invoice in five copies will mean one original and the rest carbonized.
- Requesting a copy of the commercial invoice will mean a carbonated copy of the commercial invoice.
- The evaluation of an original instead of a carbonated copy of a document required for a letter of credit will be deemed acceptable unless the letter of credit condition expressly does not accept an original copy in place of the requested carbonated copy(Al-safri, 2004).

3.1.8 Some checklists to examine the documents required in the credential:

First: Checklist for checking commercial invoice:-

- The most important items contained in the commercial invoice:-
 - 1_Quantity.
 - 2_Description of the goods.
 - 3_Price of the goods (Unit).
 - 4_Expense details.

5_History.

6_Invoice value.

7_Name and address of the importer.

8_Contract number/order.

9_Weight of goods.

10_Number of containers.

11_Terms of delivery/payment.

1_Ensure that it was issued in the name of the applicant (importer) that it was prepared by the beneficiary of the credit and that the names and addresses that have been received are correct and consistent with what is contained in the credit (see the transferable credit about this part).

2_Ensure that the value of the commercial invoice does not exceed the value of the credit and in the case of partial shipment, the value does not exceed the balance of unused credit.

3_Ensure that the description of the goods and the unit price is identical to what is stipulated in the credit.

4_Ensure that the delivery requirement (FOP, CIF, CFR,...) conforms to the terms of credit.

5_Ensure that the invoice is signed, and certified by the Chamber of Commerce or other bodies stipulated in the credit.

6_Ensure that the data are shown in the invoice such as (number of packages, shipping marks, quantity of goods, weights, and others) identical to the details shown in the shipping documents and other papers and do not conflict with them.

7_Need to mention the credit number.

8_To be issued in the same language and currency of credit.

9_Not include any additional expenses not stipulated in the credit such as (storage and correspondence expenses).

10_To be copies of them agreed and the number required in the credit.(Sultan, 1993)

Second: Checklist for Bill of Lading Check:-

1_Ensure that the bill of lading was issued in a complete set of assets and that the number provided is consistent with what is mentioned therein.

2_Ensure that the date of shipment is consistent with what is allowed in the letter of credit.

- 3_ To ensure that the shipping was through the shipping line provided in the credit if any.
- 4_ Ensure that the bill of lading carries the documentary L / C number.
- 5_ Ensure that the requirement to pay the shipping expenses is stipulated and specified by letter of credit, and indicate the place of payment of these expenses.
- 6_ Ensure that the waybill is clean (in the sense that it does not include an additional condition that indicates a defect in the goods or packaging).
- 7_ Ensure that the policy is described by the condition of shipping On Board, whether it is within the conditions printed on the form of the bill of lading used or has been added with a special seal to be mentioned on the date and signature by the carrier or his agent.
- 8_ Ensure that the amendments to the bill of lading, if any, have been ratified with the signature of the shipper or his agent including that.
- 9_ Ensure that the ports of loading and unloading (arrival) are as specified by the adoption.
- 10_ Ensure the validity of the presentations on the bill of lading if the conditions of credit require it, and that these demonstrations are complete and correct.
- 11_ If the provision includes a condition that the goods may be shipped on the surface of the ship, the shipping document should be issued with a reference to the fact that the shipment was done in this manner (for sea freight).
- 12_ Ensure that the duration of shipment is as specified by the letter of credit.
- 13_ Ensure that the shipment of goods covered by the letter of credit has been following the terms of the credit Example: For the order of a specific person, directly in the name of the addressee without notification of an order.
- 14_ Ensure that the bill of lading has been issued in the form of a shipping company.
- 15_ If the policy indicates that the goods will be unloaded and re-shipped (if allowed in the letter of credit) must ensure that the waybill covers the entire journey.
- 16_ If the policy is an indicator should be sure that the terms of credit do so.
- 17_ Make sure that the marks or weights and numbers are identical to what is contained in other shipping documents.
- 18_ If the provision does not include the date of submission of documents, it should be ensured that the shipping document was submitted within 21 days of its issuance, otherwise, the shipping document is considered to be old.

19_The general description of the goods shall not contradict the commercial invoice and the credit itself.

20_Have all versions have been released (Ghoneim, 9-2014).

Third: Checklist for Examination of Insurance Policies:

An insurance policy is a policy that covers the insurance of goods during transport from the place of production at the exporter until they reach the stores of the importer for storage, installation, or use. The insurance policy must be issued by an insurance company or a guarantor (unless the credit provides otherwise). the currency:-

1_Ensure that the insurance policy required under the terms of the credit is the same as that provided with other shipping documents.

2_In the case of shipping the goods on the surface of the ship, it must be ensured that the insurance covers the risks arising there.

3_Ensure that the insurance policy issued to the bank order or / to be issued to order, and appears for the benefit of the bank and in general to ensure that the beneficiary described in the insurance document match with what is required by credit.

4_Ensure that the description of the goods, marks, the shipping route of the flight (air/sea), the name of the aircraft, or the name of the ship are identical and the details mentioned on the shipping document and the conditions of credit.

5_Ensure that the value of insurance is mentioned in the same type of letter of credit and that it is not less than the value of the invoice at least or the value mentioned in the credit, which is usually (value CIF + 10%).

6_Are all the risks stipulated in the credit were insured under the insurance policy.

7_Are all copies issued have been submitted.

8_Is the date of issuance of the insurance policy is the same as the date of the shipping document or earlier in the sense that it is not later than the date of shipment.

9_Ensure the existence of the letter of credit number.

10_Amendments to be signed and approved by the issuers of the policy.

11_Ensure that the insurance policy includes a provision that compensation is paid at the destination.

12_Is the insurance policy negotiable? Has it been submitted in a manner consistent with the requirements for credit?

13_If the credit allows unloading in the road and issued a bill of lading accordingly, the insurance policy must cover the dangers of unloading in the road (Sultan, 1993).

Fourth: Checklist for Bill of exchange Check:-

- 1_Ensure that the value of the bill of exchange corresponds to the value of the invoice and the rest of the credit conditions for example (40%, 60% of the value of credit).
- 2_Make sure that the amount in numbers is identical to the letters.
- 3_Review the maturity of the Bill of exchange with the conditions of opening the credit (see or other conditions).
- 4_Ensure that the drawee conforms to the conditions of credit.
- 5_Is the bill of exchange signed in the required form and in a way that makes it negotiable.
- 6_Is the bill of exchange bear the required demonstrations if it was released in favor of the beneficiary.
- 7_Need to mention the letter of credit number.
- 8_Make sure that the name of the city is drawn.
- 9_Ensure the adoption of any amendments or write-offs in the bill of exchange if any.
- 10_To be in the same language and currency of credit.
- 11_Provide all edited copies.
- 12_The withdrawal shall be following the conditions of credit (Ghoneim, 9-2014).

Fifth: Checklist for Examination of Other Transport Documents:-

- 1_Mention the letter of credit number.
- 2_Ensure that the documents provided contain all the details and data required under the credit.
- 3_Ensure that the data contained in these documents are consistent with other data mentioned with the rest of the documents implementing the credit and that they do not conflict with them.
- 4_Ensure that they meet the required signatures.
- 5_The lack of amendments by not approved by the body that issued them.
- 6_Ensure that they are presented in the form and manner provided for adoption (Ghalab, 1989).

Sixth: The checklist to examine some other documents (certificate of origin, quality, validity, examination, analysis):-

- 1_Need to mention the letter of credit number.
- 2_The data contained therein shall be following the conditions of opening the credit.
- 3_Data that does not conflict with other data contained in other documents.
- 4_It meets any ratifications or signatures required under the credit.

5_It is issued by the bodies provided for credit and in the manner required (Ghoneim, 9-2014).

3.1.9 Differences in Letters of Credit:

These differences occur if the issuer (the beneficiary) submits documents that do not meet the requirements or requirements of the open letter of credit.

3.1.9.1 Some common differences in documents:-

- 1_Submit documents after the expiration of the credit.
- 2_Submission of documents after the deadline allowed for submission of documents from the date of shipment (21 days unless otherwise stated).
- 3_Shipping after the expiration date of credit for shipment.
- 4_Partial shipping in the case of not allowed.
- 5_Failure to provide all assets of the bill of lading.
- 6_Bill of lading does not show loading on board.
- 7_Provide a shipping document different from the required conditions of credit.
- 8_Bill of lading does not indicate the timing of payment of the freight (in advance / on arrival).
- 9_The credit number is not mentioned in the commercial invoice.
- 10_Invoice or certificate of origin is devoid of consular certification.
- 11_Bill of lading updated or signed.
- 12_Provide a single shipment document for more than one credit.
- 13_Bill of lading unclean (with reservations regarding the status of the goods and/or packing).
- 14_The amount of the invoice is greater than the value of the credit.
- 15_Inaccuracy in the description of the goods invoice according to the literal of what is contained dependence.
- 16_Currency difference in the invoice.
- 17_Not provide all copies of the insurance policy.
- 18_Insurance amount less than required under the terms of the credit.
- 19_Currency difference in the insurance policy.
- 20_Insurance later on the date of shipment.
- 21_Insurance policy does not cover all the risks required by the terms of credit.
- 22_The claim for compensation in the insurance policy is not the place of arrival.
- 23_Provide coverage notice instead of the insurance policy.
- 24_Different marks, numbers, and weights between the documents and some of them.

25_The existence of deletion, scraping, deletion, or addition of any of the documents without being approved by the source or location of the document.

● **Past differences may be correctable, such as:-**

- A. The credit number is not mentioned in the commercial invoice.
- B. Invalid invoice values.
- C. commercial invoice is not signed.
- D. The invoice or certificate of origin is free from consular legalization.
- E. The bill of lading is undated or signed.

● **Uncorrectable such as:-**

- A. Shipped goods are not required.
- B. Shipped after the credit expires.

Documents were submitted after the expiration of the letter of credit (Sabounji, 2007).

3.1.9.2 How to handle documents with differences:

The Amount / Enhanced Bank shall review the submitted documents and discover any errors or irregularities contained therein.

1_If the documents are subject to correction, the payer bank (the amount, the enhanced) to return these documents to the issuer for the amendment to conform with the conditions of credit to be modified before the end of the credit period.

2_Review the importer through his bank and obtain authorization from him to accept the documents despite the irregularities contained therein.

3_Rejection of documents and non-payment of value.

4_Send documents to the importer fee collection.

3.1.10 Limitations of documents on Letters of Credit:

After completing the process of checking the documents and reading the instructions of the correspondent bank letter accompanying them, the documents shall be in one of the following four cases:-

1_Documents are clean and conform to the terms of the letter of credit.

2_Documents deferred payment for time withdrawals.

3_Documents paid under reservation.

4_Documents sent fee collection.

A_Documents conforming to the terms of the Letter of Credit:

If the incoming documents are clean and follow the details and conditions of the letter of credit, the following actions should be taken:-

- 1_Documents shall be attached to the documentary document.
- 2_The client is notified of the arrival of the documentary credentials, and to come to the bank for payment on the form in two copies, the original is sent to the customer and the other copy is kept in his file.
- 3_Record the value of documents in the record of the current debtor documentary (of which).
- 4_The accounts receivable restrictions are being prepared and paid.

B_Deferred bonds:

If the incoming documents are deferred for time withdrawals drawn on the bank of the L / C, which has already pledged to accept such withdrawals, if presented with documents conforming to the terms of the L / C, the Bank's collection policies department shall undertake the practical procedures for such incoming documents related to the secured L / C. Deferred payment for time withdrawals.

- 1_Upon the arrival of the draw from the correspondent bank immediately contact the client "*calculated*" to attend and sign on the face of withdrawal acceptance.
- 2_The approval of the Department shall be taken to accept the withdrawal and determine the percentage of cash insurance and the commission prescribed.
- 3_The withdrawal shall be stamped with a stamp (acceptable bills of exchange). Officials shall sign under the bank's seal an indication of the acceptance of the withdrawal and guarantee of payment.
- 4_The correspondent bank shall write about accepting the withdrawal and guaranteeing the bank.
- 5_Recording the details of withdrawal in the register of accepted bills of exchange and the maturity record and then kept in special portfolios(Abdullah, Al-Trad, 2006).

C_Documents paid under reservation:

Documents may be presented to the correspondent bank with one or more breaches of the letter of credit conditions. The beneficiary is sure that the importing client accepts this difference. Here the correspondent bank pays the value of the documents with the reservation of importing the value paid in case the documents are rejected.

Upon receipt of such documents, the bank shall immediately contact the customer who opened the letter of credit in his name, summon him to the bank and present the documents to him. The value on his account, and then write to the sending bank about the client's acceptance of the documents, and can lift the reservation.

D_Documents for collection:

If the correspondent bank does not pay the value of the documents and sends them to the bank opening the letter of credit in the collection fee, the customer must be immediately contacted and presented to them. Documentary withdrawals are subject to the collection rules and procedures.

E_Cargo storage:

This means storing the goods in warehouses approved by the government customs authorities, as the goods deposited therein did not carry out the necessary customs procedures. In such cases, the approval of the management must be obtained, and the customer shall bear all storage and insurance expenses on the goods. Upon the customer's attendance for payment and the withdrawal of the goods, the shipping documents shall be sent to the clearance company which will undertake the task of withdrawing the goods.

H_Guarantees of receiving the goods from the port of arrival:

If the goods arrive at the port of arrival before receipt of the special shipping documents, they can be summarized at the request of the customer against a guarantee issued by the Bank to the designated vessels including an undertaking from the Bank to provide them with the original shipping documents upon arrival. The customer shall sign a written letter with the bank accepting the documents upon arrival, despite any irregularities that may occur. The balance of the letter of credit and expenses shall be credited to his account. Upon receipt of the original shipping documents to the ship's company or one of its agents, the guarantee will be canceled and returned to the bank (Abdullah, Al-Trad, 2006).

3.1.11 Amendment of Letter of Credit:

The letter of credit shall be amended according to the following:-

- A)** All amendments made after the opening of the irrevocable L / C shall be subject to the approval of the beneficiary upon the request of the L / C. Some of the amendments that may require the extension of the validity of the letter of credit (the date of shipment), increase or decrease the value, change the name of the beneficiary, change in the descriptions of the goods, the method of packing, etc.
- B)** The request for amendment must be in writing by a duly signed letter from the client himself.
- C)** If the amendment involves a reduction in the value of the goods, no action shall be taken on such reduction until a letter from the notifying bank has been confirmed by

the beneficiary.

D) Accuracy must be taken into account when notifying the beneficiary by the notified bank of the amendments. It must be ensured that the amendments do not harm the interest of the bank and that they do not contradict the international assets and customs of letters of credit.

E) The requested amendment shall be notified to the bank by telex, telegram, or by mail following the instructions of the client. Upon receipt of a letter from the bank confirming the beneficiary's consent to the required amendment procedure and recording the commission of the amendment on the account of the local bank, the equivalent value shall be recorded in dinars on the account of the applicant to open the L / C, unless otherwise stated.

F) The accounting restrictions for making adjustments to letters of credit shall be carried out following the accounting rules and principles, and registration in the relevant records such as the accrual record, customer register, bank register, and others (Abdullah, Al-Trad, 2006).

3.1.12 Expiration of Letter of Credit:

The validity of the letter of credit is the deadline for the beneficiary to submit the required documents on the letter of credit to the bank named in the letter of credit or to the accredited bank for credit (as per the conditions stated in the letter of credit in this regard). Credit before the expiry date of the credit, in this case, the issuing bank must meet the payment of the value of those documents if they comply with the terms of the credit as the beneficiary fulfills the obligations required of it in the credit.

If the credit expiration day or the last day of submission of documents after shipment falls on an official holiday in the beneficiary's country, the credit or submission period after shipment falls automatically to the first bank business day following that holiday, due to the failure of the buyer to know that the date is a holiday. Official dates in the beneficiary country, which are already announced since the beginning of the year.

If the expiry date of the credit or the last day of submission of documents after shipment falls on a compulsory holiday such as strikes, riots or any other reason, the validity of the credit or the period of submission of documents after shipment expires on the same day as the expiry date, or for the period of submission of documents.

The last date for shipment of goods stipulated in the credit shall not extend for the same period to which the validity of the credit shall be extended or the last day for

submission of documents after shipment if the expiry day falls on an official holiday in the beneficiary's country, because the shipping ports are not disabled on public holidays such as banks and institutions. Other, they are working 24/7(Sabounji, 2007).

3.1.13 Cancellation of Letters of Credit:

- 1.An irrevocable L / C shall not be canceled before the expiry of its term unless the beneficiary agrees.
- 2.In case of the lent of the L / C and the expiry of its period, the client (the applicant for opening the L / C) shall be sent a notice on the relevant form informing the bank of the expiry of the L / C and requesting him to cancel the L / C on the extension.
- 3.The beneficiary abroad shall be notified of the cancellation request from the applicant for the opening of the letter of credit.
- 4.An undertaking shall be taken on the customer to pay the value of any bill of lading that may be received and following the terms of L / C.
5. In case of approval of cancellation of the letter of credit, the insurance refunds and the cancellation of the statutory restriction shall be made(Abdullah, Al-Trad, 2006, p. 305-56).

3.1.14 International Banking Practices for Document Examination 745 ISBP:

Shipping documents are the backbone of L / C and are of great importance as the main test for decisions of L/C parties and to determine the integrity of L/C.

Hence the importance of the stage of examination of shipping documents, which was a constant concern and a chronic headache for all those interested and engaged in the work of letters of credit.

The position of the international rules in their successive publications on the issue of document examination ranged from processing under general provisions or details related to the examination process and how to deal with irregular documents, and between strict and professional examination, as well as ranging from flexible and sometimes loose controls.

The follower of the texts of the international rules, especially in its various revisions since the rules 290 of 1974 through the rules No. 400 of 1973, 500 in 1994, and up to the rules No. 600 of 2007 - the follower of this long journey finds that despite all the international efforts in this regard, it remained Difficulties in the application so much that some studies indicate that 60%: 90% of letters of credit implemented globally are disputed and raise disputes between the parties.

However, the most important directions of the international rules in dealing with

the problem of examination of documents, revealed by Article XIII of the International Rules No. 500 entitled: the level of examination of documents

STANDARD for EXAMINATION OF DOCUMENTS.

Which explicitly referred for the first time within the context of the article to

INTERNATIONAL STANDARD BANKING PRACTICE– ISBP.

This is a matter of great ambiguity and confusion in practice, and then came to the international rules No. 600 of 2007, to strengthen Article XIV this subject under paragraph (d) entitled:-

STANARD for EXAMINATION OF DOCUMENTS.

This is evident in the light of the ease of the rules of professionalism in the examination of documents and reduces the size of disputes and disputes in the implementation of letters of credit, but the serious thing is that the examination of documents has been withdrawn to other rules are the rules of international practice in the examination of ISBP in addition to the provisions and conditions of credit and international rules themselves.

Credit may also be extended to:-

1. International rules in force.
2. International Document Examination Practices.
3. International rules for interbank payments.
4. International rules on letters of credit SBLC, if the credit is so issued.

We emphasize that it has become more difficult to implement and implement, which is the opposite of what the successive amendments in the international rules are intended. We have retained the same general rules for examining documents to generalize the benefit(Ghoneim,International Banking Practice Standards for Document Examination in Letters of Credit, 09- 2014).

3.1.15 Highlights of the International Banking Practices Rules for Document Examination:

The historical evolution of the International Banking Practices Standards for Document Examination can be presented as follows:-

issue number ISBP	Number of Major Rules	Year of Issue	Date International Rules for Letters of Credit
645	200	2002	500
681	185	2007	600
745	291	2013	600

Table (3.1): The historical evolution of the International Banking Practices Standards for Document Examination.....(Source: Ghoneim, Letter of credit and Documentary Collection, 10- 2014).

It is clear from the above that three versions have been submitted in 11 years only, an average issuance every 3.5 years, a rate that we see high, especially if we are on international rules governing the work of sensitive and related to the interests of many parties, especially since we can't see a fundamental development in the surrounding environment The implementation of letters of credit, except the issuance of international rules No. 600 and the rules of the Code 715 for the year 2010, which in its entirety does not require the issuance of rules of such speed and size, which is close to three hundred rules in the last version, as well as sub-items.

In the first version under No. 645, which coincided with the international rules No. 500 Practices reveals that there is no clear link between rules 500 and the standards of international banking practices, and this dimension was taken into account in the second version under No. 681, which followed international rules No. 600, These standards are in line with international standards No. 600.

We have already pointed out that the issuance of international banking practices for the examination of documents came to face the problem of high rates of rejection of documents and the lack of normative rules that can be consulted with different practices and views.

It can be said that the rules of practice for the examination of documents are only a compilation of the practices for the examination of documents in different sites and countries that have been revised and spent on what can be circulated at the international level, in the sense of moving these rules from local to global to create a

single language characterized by consensus and acceptance International Document Examination Practices However, many domestic examination practices that are difficult to accept at the international public level have not yet been covered by the International Banking Practices Rules in their three versions 645, 681, 745, 2002, 2007 and 2013 respectively.

We are therefore faced with what may be called unified checklists to create a common vision that is generally accepted by all actors involved in the examination of documents. However, these rules have not yet been emptied in the form of lists and are issued as general rules(Ghoneim,Letter of credit and Documentary Collection, 10-2014).

3.1.16 Rules 745 for the year 2013:

These rules came after about six years of practical practices in the framework of the previous rules, which allowed the various parties to many positions and practical cases and judicial decisions and arbitration judgments and problems of practical application, which necessitated the issuance of new rules inspired and respond to all this, and then included some new features Previous versions, in terms of covering new documents for the first time as well as restructuring previous rules and presentation style.

The rules contained (291) articles, while the number of general principles reached (41), which are digital breakthroughs that reflect fundamental changes in the thinking and philosophy of preparing the international rules for the practices of examining shipping documents and sliding to the risks of fine details and details of details, which should not be formulated in the form of rules. The dumping of details in this way clashes with the name of the rules mainly, as the concept of the rules mainly deviate from the main guidelines and principles governing, but does not under any circumstances to dive into the details and the presentation of practical examples, this is close to a detailed practical guide Not international rules at all how much.

This meaning deepens if we realize that rules 745 included (291) main article which included (280) sub-article, then (67) articles within the sub-articles and (6) other sub-articles to a total of 644 paragraphs.

Is it possible to speak with these enormous details of general rules of international practice relating to a highly sensitive subject in facilitating international trade operations?

Again, the idea of preparing checklists has been put forward and implemented in practice since 1920, almost a century, and all banking websites have their lists, and all professional practitioners have their lists that reflect their practical experience and life experience and the degree of their understanding of the concept of the International Standard Rules for Credit Documentary in their various versions.

It is perhaps surprising that the ICC in Paris, through its committees on the preparation of these rules, to return to the concepts and practical methods put forward nearly 100 years ago in the face of the problem of document examination, rather than devising new methods or devising different ideas to keep abreast of developments and practical clash With the problems of screening rather than surrender and the recall of a traditional technique that has not resolved the problem over many years, it is not enough to justify the decline in the rate of rejection of documents with the application of international banking practices to examine documents on the strength of letters of credit.

Of the most important features of the rules 745 of 2013, it covered for the first time the following documents:-

- ✓ Packing list.
- ✓ Weight list.
- ✓ The certificate is provided by the beneficiary.
- ✓ Non-negotiable bill of lading.
- ✓ Certificate of analysis, examination, health, quantity, quality.

The previous documents covered the following documents:-

- ✓ Bills of Exchange.
- ✓ Invoices.
- ✓ A transport bill covering at least two different modes of transport.
- ✓ Bill of lading.
- ✓ Bill of lease (charter).
- ✓ Air transport bill.
- ✓ Road transport support, by rail or inland waterways.
- ✓ Insurance policy and insurance coverage.
- ✓ Certificate of origin.

The preceding details of the documents with their enlargement in Rules 745 and covering about (9) new documents provide further evidence that we are facing more detailed checklists than we are facing uniform international rules in the sense of the

term rules.

Rules 745 also emphasized the importance of reading them with UCP600 and not reading them individually.

Should be read in its entirety and not in isolation.

It also seeks to demonstrate how practitioners apply credits to UCP600.

Explain how the practice articulated in UCP600 is applied by the documentary practitioner.

They also do not modify the UCP rules as we have already offered.

ISBP does not amend UCP600(Ghoneim,International Banking Practice Standards for Document Examination in Letters of Credit, 09- 2014).



The Part II :

The problem of Checking Shipping Documents

3.2.1 Problem of checking shipping documents:

Through many years of practice in the examination of shipping documents, all those dealing with letters of credit have suffered from the application of the principle of verbatim examination of documents as a basis for accepting or rejecting documents, and there is no doubt that such practices resulted in a large number of cases of rejection of documents as a result of the narrow application and to the extent Verbatim examination of documents.

Although it is the responsibility of the bank to examine the documents, the bank is the source of the credit, and the bank, if any, is strengthened. The strict application of the principle of verbatim examination of the documents was more severe by the banks issuing the letters of credit. Documentary documents, which are often issued with partial cash cover, increase the risk of rejection of these documents and the failure of the client to accept and withdraw the documents. Therefore, banks will not be able to cover the exposed credit facilities, especially with the risk of not discovering the documents. A bank for disputes may be delayed or delayed by the time frame governed by the International Standard Rules for letters of credit, thereby dropping the right of these banks to refuse documents and request their correspondents to refund the deducted funds to the accounts of the banks issuing the letters of credit, as well as differences of opinion regarding the adjustment and characterization of disputes The bank is the source of the credit and the bank that fulfilled the beneficiary and is often the bank with the credit.

In the face of these large and multiple risks, banks issuing credit only found strong entrenchment behind the principle of verbatim examination of documents in an attempt to ward off some of the risks associated with letters of credit, especially in cases where the credit standing of the client is deteriorating during the period from the establishment of the credit to the date of submission, or the decline of market values. The goods covered by the letters of credit as the last line of defense if the documents are rejected and the order is not covered by the order of the credit, in addition to the refund of the partial cover previously met when the credit was created, which doubles the credit losses of the bank.

International courts and ICC arbitration commissions and tribunals have long recommended that the application of the principle of professionalism in document examination be mitigated to avoid adverse effects on LCC parties, in particular, the beneficiary and paying banks, to facilitate and stimulate international exchanges and to preserve the important practical value of the LCC mechanism as an important method. And safe to finance international trade.

In this context, many studies have indicated that about 90% of letters of credit reflect problems in the examination stage, especially at the first submission of documents(Ghoneim,Letter of credit and Documentary Collection, 10- 2014).

In light of the above efforts and recommendations continued in an attempt to reduce the rates of rejection of documents and protect the rights of different parties to credit.

Moreover, the fortification of the issuing banks and the order to open the credit by the principle of verbatim examination was an important reflection of the rule of banks' irresponsibility to goods and that they are only concerned with documents since this rule is one of the important and intellectual principles in the letter of credit business. Weak position under credit compared to the high degree of security enjoyed by the beneficiary of the credit.

Letter of credit as a mechanism for financing international trade represents the best and most appropriate international financing mechanism for all parties and gives them varying degrees of protection against the risks of international trade. However, this does not preclude the recognition that the beneficiary's interests enjoy MFN rights under the special legal regime governing appropriations for letters of credit.

As well as from the texts and spirit of the International Standard Rules for letters of credit, which were issued successively since 1933 until rules No. 600 in force since 2006 to date.

Therefore, reliance on the principle of verbatim examination of documents by some parties may seem justified as a strong and almost sole basis for protecting their rights, especially the banker and the issuing bank.

Despite the foregoing, the loud voice and the strong negotiating and competitive position of the beneficiaries of the letters of credit and their power to influence decision-makers and the linking of their interests directly with the interests of other actors in the implementation of letters of credit, especially shipping companies, shipping agents and insurance companies, all this prompted the decision-maker in the

International Chamber of Commerce To adopt the views that call for easing the principle of verbatim examination of documents with the search for alternative solutions to address the problem of high rates of rejection of documents.

Thus, the idea was to issue separate rules that would bring together actual practices in different countries on the examination and revision of documents and the dissemination of what was accepted internationally.

Hence the first reference to the concept of international banking practices for the examination of documents in the article (13) of the rules No. 500 in 1993, and until that time the concept of these practices was not clear, and that its operationalization was ambiguous and raises questions more than answers.

This remained in force until the issuance of rules No. 645 for the year 2002, and the concept of international practices for the examination of documents came into practice and then rolled out the numbers 681 and 745 in 2007 and 2013 respectively(Ghoneim,International Banking Practice Standards for Document Examination in Letters of Credit, 09- 2014).

Thus, international banking practices have become a reality since 2002, and defenders felt a significant decline in the rates of rejection of documents, and some recent studies indicate that they are between 50-60% compared to 90% before the introduction of the concept of international banking practices and their expectations of further decline in favor of the process accept documents.

The important question remains whether the idea of issuing the rules of international banking practices for the examination of documents was the best solution to address the problem of a high proportion of rejected documents or whether it was necessary to search for better scenarios.

On the sidelines of this case, rules No. 600 came with important additions, most notably the concept of submission conforming to the article (15) entitled:-

Complying Presentation

Article (2) of the same rules, entitled: Definition, where the definition of the corresponding submission as follows:-

Complying Presentation

This means a presentation that is following the terms and conditions of the credit, the applicable provisions of these rules, and international standard banking practice.

Article 14, paragraph (D) of Rules 600 is entitled:-

The standard for Examination of Documents

Paragraph (D) referred to:

Data in a document, when read in context with the credit, the document itself, and international standard banking practice need not be identical to, but must not conflict with data in that document, any other stipulated or the credit.

The International Rules No. 600 also includes a significant amendment relating to the examination of documents if the examination period for documents is determined to a maximum of five working days following the date of receipt of the documents for the designated bank that has been accepted for an appointment, the enhanced bank, the issuing bank, and each of the three listed banks. The right period for examination.

Paragraph (B) of Article (14) indicated as follows:-

(B) A nominated bank acting on its nomination, a confirming bank if any, and the issuing bank shall each have a maximum of five banking days following the day of presentation to determine if a presentation is complying.

Thus, since 1993, Standard International Credentials (CRA) set the stage for version 500 and then version 600 for 2006 for the concepts of international banking practices for document examination, and referred to these rules as one of the important criteria governing the examination of documents (Ghoneim, International Standard Rules, and Norms for Letters of Credit No. 600, 2014).

Thus, the principle of verbatim examination of documents in the application has been revised and the examination is no longer limited to the conformity of documents with the terms and conditions of the credit, but now we are in the face of the concept of conformity of submission, which means the following:-

- ✓ Documents conforming to the terms and conditions of credit.
- ✓ Uniform international rules and customs concerning credit.
- ✓ ISBP International Banking Standards.

Consequently, the concept of conformity of documents revolves around the fulfillment of the three previous criteria, which is stated in the rules of 600, which we believe created a difficult reality due to the multiple criteria of the examination, and constituted a clear bias to the interests of the beneficiary of the credit, and hit the examination process with a clear slack.

It is the multiplicity of standards as mentioned that has opened the door for the beneficiary to pass documents in any way, in addition to the endless facilities for acceptance of documents by international banking practices, which is the main reason

to reduce the rates of rejection of documents as a natural result with the codification of hundreds of banking practices. In many countries, they are considered international rules to the extent that the main and subparagraphs of these rules reached (644), which is a huge number.

Therefore, the decline in rejection rates is not due, to the soundness of the international banking practices approach as lists of documents to be examined according to the most detailed details of each document and up to the level of the daily work manual of the examiners.

The three-dimensional framework presented to us following the concept of conformity submission is not enough alone to address the problem of examination of documents and to face many cases that may arise in the application, as it requires a full understanding of the operating policies within the bank, local laws, instructions of the regulators, inventory of practical experience of the examiner.

The main issue in letters of credit is documents, preparation, and presentation, issuance and signature, content, and function. It is extremely important, he derived his name from them as proof that the credit area and its essence is the documents. In the field of letter of credit, documents revolve between important axes:-

1. How to prepare the documents and their timing?
2. How to submit documents and their timing?
3. What is the name of the required document?
4. Who issues the document?
5. Does it require a signature?
6. What is the content and language of the document?
7. What is the function of the document?
8. Does it need official documentation or certification?
9. What are the rules governing the document following the international rules for letters of credit in force or subject to the credit?
10. Recently, what are the rules governing the preparation and submission of a document in the light of ISBP?(Ghoneim,Letter of credit and Documentary Collection, 10- 2014).

Besides, the bank's commitment to the payment of the source of credit is matched by the obligation of the beneficiary to respect the full terms and conditions of the credit and to submit all the documents required by the credit and as required and without the respect of the beneficiary, therefore, the bank's irrevocable commitment

falls and the credit does not produce its effects as a means of payment. Because the beneficiary is well aware of this and realizes that relying on his rights under the credit depends on the extent of his commitment to respect the terms and conditions of the credit and the submission of documents as required by the credit, both quantitatively and qualitatively, it is therefore important to prepare them.

To ensure the effectiveness and efficiency of the performance of the letter of credit, all parties to the credit and the performance of each of them must fulfill their role assigned with honesty, accuracy, and awareness with an in-depth reading of the credit requirements and early dealing with any texts or conditions that need clarification or amendment, before the preparation and submission of documents.

On both sides of this form, the principal must not abuse his or her rights under credit and should not accept documents that have apparent formal disputes such as typographical errors. It also applies to overlapping banks.

Between the beneficiary and the beneficiary, there are overlapping banks, as well as indirect parties, which play a pivotal role in the conduct of international trade operations, especially transport companies, shipping agents, insurance companies, and international inspection companies.

Because the beneficiary is often in the developed world, which holds the leading share in the international trade market, especially in the export operations of the developing world, the developed world has most of the keys to decision-making and the formation of public opinion and orientations of international public and private bodies and organizations and has a greater capacity to influence and bias to protect its interests. Issuance of legislation and laws that serve his interests and certainly does not achieve a balance between the interests of different parties.

In this way, ICC releases come in this direction through its constant endeavor to protect the rights of beneficiaries of credit, which always reflects the interests of large and international companies that have wide monopolies in the various fields of economic activity, and the areas of import, export, shipping, and insurance.

Hence the insistence of the rules of international banking practices to codify the prevailing customs and practices, especially about the preparation of various transport documents, and cited dozens of examples and enacted many controls to accommodate these practices rather than impose the terms and conditions of credit and call for respect (Ghoneim, International Banking Practice Standards for Document Examination in Letters of Credit, 09- 2014).

3.2.2 Reduced rates of rejection of documents would justify issuing ISBP rules:

This title raises some important questions about the role and responsibilities of the beneficiary regarding:-

- ✓ Read and review the terms of credit with the terms of the base contract?
- ✓ The position of the beneficiary in the early claim of any amendments to the credit?
- ✓ Who is responsible for the defect in the preparation of documents that do not comply with the conditions of credit?
- ✓ Are the high rejection rates due to fundamental or secondary reasons?
- ✓ What is the volume of documents that are rejected for secondary reasons or as a result of the strict application of the principle of verbatim examination of documents?
- ✓ Is the high volume of differences due to the neglect of beneficiaries in the preparation of documents?
- ✓ Is the rejection at the first presentation does not have opportunities to correct the documents and then accept?
- ✓ Is the high rate of rejection at the stage of the enhanced bank and/or the designated bank that accepted the appointment, or are the commander at the stage of the bank source of credit and the position of the commander of the acceptance of documents?

These and other questions we see as an important input to the search for different ways and mechanisms to deal with the problem of offending shipping documents and how to protect the conflicting interests of the credit parties.

Did banks have to play a more positive role in educating their clients, whether the beneficiary or the beneficiary of the credit? Is the stage of receiving issuance requests for credits and issuing letters of credit itself needed more attention from banks while discussing matters with their customers and insight on how to formulate the conditions and considerations governing the documents, As this has a significant positive impact on the subsequent stages of implementation of the credit, including the submission of documents.

So many axes could be worked out before resorting to the difficult option of trying to impose local screening practices and move them to the international mainstream.

Banks could have been obliged to exercise due diligence in the pre-establishment phase of the credit so that the credit issues a clear, transparent, flexible, and

unambiguous with appropriate periods for the presentation of documents and shipping dates with care in the formulation of the terms of credit in areas where differing views or practical experiences reveal duplication Errors occur(Ghoneim,The role of Letters of Credit in import and export operations, 10-2014).

3.2.3 Extreme demonstration of the beneficiary:

The review of the enormous amount of international banking practices reveals a strong effort to facilitate the beneficiary in the preparation of documents and lack of commitment and due diligence in reading the terms and conditions of credit, and not paid to review these terms with the client ordering to modify the credit, and instead these rules provided great facilities The beneficiary in drafting documents, arranging the content of the document, copying the document, the concept of the origin or document images, the methods of signing the document, using abbreviations as an alternative to words and creating ambiguous situations instead of stipulating compliance with the credit, the method of writing the date, allowing more than one method, although writing the date as contained in the credit does not represent a significant burden on the beneficiary, but allow to exceed the conditions of credit and then seek to codify this override, the use of more than one language in the credit, the formulation of the maturity date in the bills of exchange, Data and signature of various bonds and other examples of international banking practices.

3.2.4 Review the actual role of the expertise and skills of document examiners:

The rules of international banking practices for the examination of documents have been devoted to the role of prefabricated checklists, the numerous practical examples within them, and the most detailed details of the preparation of documents.

It should be noted that in the period before these rules, with the principle of verbatim examination of the documents, the role of the document checker was very vital and was a great asset for the bank.

No matter how advanced the methods and mechanisms of examination of documents, the human element will continue to have a decisive role through its accumulated practical experience and the technical sense that can't be subjected to pre-processed rigid rules or molds.Any talented examiner can be based on the practical examples and details of the ISBP rules that he can refer to. This will negatively affect the efficiency of the examination process itself.

One of the negative repercussions of these rules is the decline of the role of the human element the lack of interest in the preparation of professional cadres and the

abandonment of existing cadres, and thus the banking business will face a future generation that does not have the professionalism, experience, basis, and talent of document examination, all of which is supported by the apparent interest in reducing the rates of rejection of documents. This is due to the issuance of ISBP rules (Ghoneim, International Banking Practice Standards for Document Examination in Letters of Credit, 09- 2014).

3.2.5 Independent version of the rules why?

The International Banking Practices Rules for Document Examination indicate that they do not modify the International Standard Rules for UCP Credit and are a supplement to them.

The International Chamber of Commerce (IBP) Special Committee on Introduction to the International Banking Practices (ISBP) notes that it is:

Practical Complement to UCP and also seeks to bridge the gap between general principles and the day-to-day practices of screeners.

It fills a needed gap between the general principles announced in the rules and the daily work.

It also indicates that these Rules do not modify the International Standard Rules for letters of credit.

UCP: (this document does not amend UCP 600) (Ghoneim, International Standard Rules, and Norms for Letters of Credit No. 600, 2014).

3.2.6 Dumping the details and confusing the examination process:

Many paragraphs of the International Banking Practices (ISBP) are packed with many subheadings and practical examples that dive into the details of document preparation beginning and before the examination process, and to the extent that the document may reach the point of sagging. Important examples here are the rules for: How to calculate the maturity date of bills of exchange, How to calculate the dates of submission, the parties responsible for the signature of the different transfer bonds, who signs on behalf of whom, when and when it refuses, when the name of the signer appears on his behalf, and when it is not deemed necessary; Account the date mentioned, and when excluded, the language of the letter of credit, view the invoice data within the document, a statement how the title document and other examples.

An analysis of the main and subheadings of the various documents and general principles as contained in Rules 745 is given here: (Ghoneim, Letter of credit and Documentary Collection, 10- 2014).

Series	Title	Code	The Number				Total
			Main material	Sub - items	Sub / Sub 1	Sub / Sub 2	
1	General principles	A	41	45	19	-	105
2	Bills of exchange	B	18	16	14	-	48
3	Invoices	C	15	12	4	-	31
4	Multimodal transport document	D	32	28	4	-	64
5	Shipping document	E	28	35	6	2	71
6	Non-negotiable sea freight bill	F	25	36	6	2	69
7	Bill of lading freight	G	27	31	8	2	68
8	Air freight bill	H	27	22	2	-	51
9	Supporting scarcity, land, railway, river	J	20	26	2	-	48
10	Insurance policy	K	23	16	-	-	39
11	Certificate of Origin	L	8	5	2	-	15
12	packing list	M	6	-	-	-	6
13	Weight list	N	6	-	-	-	6
14	Beneficiary certificate	P	4	2	-	-	6
15	Certificate of analysis, examination, health	Q	11	6	-	-	17

Table (3.2): An analysis of the main and subheadings of the various documents and general principles as contained in Rules 745

(Source: Ghoneim, International Banking Practice Standards for Document Examination in Letters of Credit, 09- 2014)

3.2.7 Order under siege:

The UCP and ISBP reveal a clear bias in favor of the beneficiary at the expense of the beneficiary. We find this clear by:-

1-Reduce the period of examination of documents to (5) working days following the day of receipt of the documents by the bank (for the designated bank before the appointment, the enhanced bank, if any, and the issuing bank).

Reducing the examination period to decide whether to accept or reject documents - despite practical necessities - is primarily aimed at the beneficiary's interests and seeks to deliver the value of the documents under time pressure. The issuer and the issuing bank do not have time to suit many situations such as letters of credit. With large financial values, goods of a sensitive or perishable nature, and shipping from ports close to the location of the commander, goods arrive quickly and are liable to impose delay penalties if not shipped and released quickly, which puts pressure on the decision to accept or reject documents.

2-Multiple levels and standards of examination and this passes the conditions of credit and rules and standards of UCP credit and then the international practices of the examination of ISBP, which opens several gateways to pass documents and justify their acceptance decisions.

3-Articles of exemption from liability of banks according to the unified rules and customs for letters of credit, which are articles 34-37 of rules No. 600.

4-Commercial engagements with customers whose goods have been imported to meet their needs.

5-Pressing the limits of the existing credit facilities occupied by the existing letters of credit, and their shipping documents have not yet arrived.

6-Fluctuations in the price of goods in the market and its impact on the profitability of the order and the potential exposure to commercial and financial losses.

7-Exchange rate fluctuations between the imported currency and the national currency to initiate which may result in losses.

8-Disruption of the liquidity position of the commander and freezing a large part of it in the cash cover partial or total open credits.

9-Inability to manage the dispute or exchange views with the bank opening the credit and other parties.

10-The judicial dispute, which extends for many years and is associated with high judicial expenses.

3.2.8 Are ISBP rules the solution?

Certainly, but it is one of the approaches to solving the problem of disputes with shipping documents. Certainly adopted by some influential positions in the decision-making circle and was able to refer to them in the Unified Rules and Norms No. 500 of 1993, then in Rules No. 600 of 2006. This was accompanied by the issuance of special rules for international banking practices to examine Documents under

numbers 645, 681, 745 years 2002, 2007, and 2013 respectively(Ghoneim,International Banking Practice Standards for Document Examination in Letters of Credit, 09- 2014).



Chapter 4 :

Fraud and Cheat in Letters of Credit Transactions

4.1 Fraud and Cheat in Letters of Credit:

Letters of credit provide great capacity for cheating because they are used in transactions where goods are not sighted directly by the buyer and are often paid for after shipment, not upon receipt, thus trading globally provides great capacity for profit, but also the great capacity for deception.

Letters of credit have proved to be one of the safer financial instruments, and have a long history indeed, however they are vulnerable to fraud because they are entirely dependent on documentation. If documentation presented along with a letter of credit appears valid, then a bank will pay the amount stipulated on the letter of credit. If the transaction is later revealed to be fraudulent, the bank takes no responsibility for the buyer's loss. In fact clauses in the letter of credit itself specifically, absolve the bank of any responsibility for paying out.

These clauses are outlined in the UCP 600, a document issued by the ICC (International Chamber of Commerce) which covers the Uniform Customs and Practice for letters of credit. This document is made up of several Articles which comprise the guidelines under which letters of credit are issued, used, verified, and otherwise handled. Article 34 is a specific disclaimer that absolves banks of any responsibility in the event of document fraud.

UCP 600 Article 34: Disclaimer on Effectiveness of Documents:

A bank assumes no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification, or legal effect of any document, or for the general or particular conditions stipulated in a document or superimposed thereon; nor does it assume any liability or responsibility for the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods, services or other performance represented by any document, or for the good faith or acts or omissions, solvency, performance or standing of the consignor, the carrier, the forwarder, the consignee or the insurer of the goods or any other person.

Buyers should therefore be wary when it comes to issuing letters of credit, being aware that whilst there is a certain level of protection inbuilt into the letter of credit, an unscrupulous scam artist with well-forged documentation can quite easily claim the

full value of the letter of credit, leaving the buyer with no goods, and no legal recourse.

In many cases those perpetrating cheat into the millions are never caught, the money is sent to offshore sheltered accounts, and the scam sellers disappear underground. For this reason, traders seeking to deal with sellers must verify the authenticity and background of the seller. Scammers normally do not spend years building solid reputations simply to destroy them with one dirty deal, which means that a buyer can protect him or herself simply by researching a seller's background, or a broker's background if one is going through a trade intermediary. If there is little to no background, steer clear, at best this means that the trader or seller is inexperienced, at worst, they are a scammer a clear sign that a proposed transaction may be fraudulent is when a commodity is offered far below market value. Whilst it might be tempting to try and pick up a cheap deal often advertised as a stock that has gone unsold after another buyer pulled out, or which was found to be surplus after a bumper crop, one must keep one's head. Scammers often trap buyers by their greed, enticing them into deals that are quite simply too good to be true, and making off with their money whilst the buyer gets nothing.

This makes for a rather intimidating trading climate for some buyers. Realizing that they have little to no protection in the event of a cheat, one might wonder how it is that more fraudulent activities are not reported. Indeed, the playing field seems skewed towards fraudsters, and banks, whilst happy to keep one's money, are disinclined to safeguard funds when a letter of credit is presented(Source: helpintrade.com/letter-credit-fraud/ August 28, 2018).

4.2 Fraud in Shipping Documents:

This is a very important aspect in the practical applications of letters of credit and should be addressed in the light of key questions:-

1. What is meant by fraud in letters of credit?
2. The original letter of credit issued to protect who?
3. the time standard for the discovery of the bank subject of fraud, and was discovered before the payment of the value of documents to the beneficiary? Or then?
4. Who bears the financial burdens and effects of fraud shipping documents that have been paid to the beneficiary before the fraud was discovered?

Fraud herein means that the beneficiary intentionally and voluntarily submits shipping documents that appear to conform to the conditions of credit. Their defect is

difficult to detect or falsify by the apparent examination of such documents or the beneficiary is aware of the submission of such defective documents.

The origin of our vision is the legal rule that fraud spoils everything

To answer the second question we say that banking operations in general and business practices, whether at the local or international level, is based on mutual trust between the parties, and there is a need to have such confidence in transactions involving credit between different parties, and letter of credit is one of the tools to grant bank credit, Therefore, trust plays a very important role in the practices and implementation of letters of credit, so the letter of credit is issued to protect the interests of its parties mainly - the seller, the beneficiary, and the buyer (the order to open the credit).

The third question relates to a vital point: the timing of the discovery of the fraud. If the bank becomes aware of any fraud or deliberate fraud by the beneficiary or the beneficiary's knowledge and seeks to pass documents to the bank and obtain their value by fraud and deception, the bank may stop paying the value. Documents to the beneficiary and to refuse to accept these documents based on the information available to him and confirmed evidence of the occurrence of deliberate fraud by the beneficiary.

The bank's right reaches its claim to the beneficiary to refund the value of the fraudulent shipping documents he received, once the forgery was discovered after paying the value to him, and even exceeds the claimant's claim for any material or moral damages suffered by the bank. The bank should have verified the authenticity of the documents before payment, and that if the bank made the payment, it accepted the documents and their initial examination, since arbitrary fraud and deliberate and rigorous fraud may not detect excessive accuracy and provisions taking into account that the role of the bank and the limits of its responsibility Concerning the examination of shipping documents submitted Les does not exceed the apparent examination of documents to ensure compliance with the requirements of letter of credit, without withdrawing this responsibility to scrutinize the documents and go beyond the virtual examination of them to discover the truthfulness of counterfeiting, as confirmed by international rules and customs on the limits of the obligations of banks and article No. (34)) From the set of applicable rules No. 600 concerning the bank's irresponsibility about the form, sufficiency, accuracy, authenticity, forgery, or legal consequences thereof, to the end of the said article, which is confirmed by the

provisions and spirit of these international rules in more than one place.

The answer to the fourth question remains in determining which party bears the financial implications of document fraud. A distinction must be made between cases in which the bank has played its role honestly and positively in examining documents, taking care of a careful professional man following established international rules and customs in banking practices relating to the examination process. And among the cases where he has been negligent in fulfilling his role and fulfilling his obligations arising from the letter of credit in this section.

In the first case, it investigates the bank after it has fulfilled its obligations to the fullest and has paid for the sound documents at face value at the time of their examination and then found out its falsity and unsafeness. In this case, the bank has the right to refer to the order process, the buyer/importer/applicant. Credit does not mean that the bank does not have the right to ask the beneficiary to refund what he has already received in return for the documents that were later discovered to have been falsified.

In the second case, the bank's failure to perform its role in failing to exercise the reasonable and required due diligence in examining the documents results in its responsibility to bear the value of the forged documents without referring to its client, and only the beneficiary can be consulted if the fraud was deliberate even if the bank failed to perform its role to prevent. The principle is that banks do not guarantee the truthfulness, accuracy, integrity or authenticity of documents as long as their defect is not apparent, the bank does not guarantee hidden defects, all as long as the bank has done the required due diligence in the examination of documents. On the whole, the bank does not ask for forgery and falsification of documents that it has accepted and pay their value. The bank's work should not be marred by mistakes or negligence. Fraud in this matter also goes into providing incorrect data that contradict reality or submitting false documents that are alleged to be issued by the authorities. Is the issuance of inspection certificate seems to be sound and issued by a competent authority and known for its credibility, but the truth is to falsify the inspection certificate and attribute it to this authority.

In summary, the Bank has the right, in cases where there is a deliberate fraud by the beneficiary or with his knowledge, the Bank has the right to suspend the payment of the value of the documents or not to fulfill their value at the due date in the

appropriations or deferred payments, with the exception or in violation of a more precise expression of the basic rule of the severance The bank's commitment to fulfill its obligations following the terms of the letter of credit and not to look beyond the limits of shipping documents(Ghoneim, 10- 2014).

4.3 The Phenomenon of Manipulation and Cheat in Letters of Credit in Libyan Banks (2015):

The Libyan Audit Bureau was able to stop the bleeding in the State's reserves of foreign exchange by standing on a large number of crimes committed by manipulating letters of credit and documents by collecting fees and imports to acquire foreign currency or smuggling foreign currency and smuggling. Serious damage to the national economy, the depletion of the Central Bank of Libya's foreign exchange reserves and the decline in sovereign revenues, and the rise in the general level of prices in the country, and in the Examples of unfolding manifestations of cheat include:-

- 1-Smuggling of funds without any shipping procedure.
- 2-Smuggling funds abroad and shipping empty containers containing garbage or expired goods.
- 3-Falsification of declarations and customs documents to change the goods data.
- 4-Forging invoices to change the prices and quantities of goods.
- 5-Owning some suppliers to companies inspecting and the company supplied abroad and sometimes is leased shipping line.
- 6-Inflate the quantities of goods exempted from customs to transfer the largest amount of money abroad and other manifestations of corruption.

The Audit Bureau, in carrying out its role following Law No. (19) for the year 2013 and its amendments and its executive regulations, has noticed serious breaches in the banking and customs systems that have resulted in the growing phenomenon of manipulation of letters of credit and documents by collecting fees and imports to evade labor and evasion (Libyan Audit Bureau, 2015).

The use of illegal means that constitute criminal offenses following the Penal Code, the Economic Crimes Act, the Money Laundering Act, etc. To the following:-

- 1-Depletion of the Central Bank of Libya's foreign exchange reserves.
- 2-Allowing the continued depletion of reserves to speculate in the currency without being matched by goods and services that benefit the state will lead to a rapid collapse of the state in light of the crisis.

3-To cause serious damage to the national economy, the impact of which extends to many years.

4-High level of prices in the country.

5-Weakening the credit situation of the Libyan banking system.

6-Low sovereign revenue.

7-Increasing corruption in society.

Where manipulations are carried out by the weak souls in violation of legislation, regulations, and leaflets governing the opening, implementation, and closure of letters of credit and supplies from some of the relevant parties, suppliers, banks opening letters of credit, and the Customs Authority and customs brokers and inspection companies, through the following actions:-

Submitting forged customs declarations by some suppliers and accepting them from bank employees, opening letters of credit without being precise when inspecting the prices of goods and their items. Also, it is not verified that they conform to the declaration and related documents when settled according to what is already in the Customs Authority, as well as without verifying their financial positions. And their licenses and who meet the conditions for opening letters of credit. As well as the provision of invoices and incorrect documents by some individuals and customs brokers to reduce the value of goods supplied to evade the payment of customs duties, and is accepted by customs officials despite the unreasonable prices, due to poor procedures for acceptance and numbering and the declaration of the goods in addition to deficiencies in inspections Valuation and interest.

In addition to the invalidity of many certificates issued by inspection companies abroad and bills of lading regarding the goods supplied. Also, not to use automatic inspection devices and not to prove the case when noticed suspicions in weight by some ports, because of the absence of the real role of the internal control devices in the (Customs Department - Port, where a large number of empty containers have been discovered, the value of which has been diverted abroad without the supply of goods in return, so far in the port of Tripoli, 118 empty containers, and the port of five of the number of 51 empty containers, in addition to the port of Misrata with 139 empty containers. Sense Reports of customs inspection units in ports. Accordingly, the President of the Libyan Audit Bureau issued a decision No. (398) for the year 2015 to freeze bank account balances for some companies, persons, and customs brokers, including the following:- (Libyan Audit Bureau, 2015)

1_Freeze the balances of bank accounts for 26 companies because of their involvement in foreign exchange smuggling and forgery in official documents.

2_Freezing bank account balances of 20 companies evaded the payment of customs duties and their forgery in official documents.

3_Freeze personal accounts of 99 personal involvement in the work of smuggling foreign currency or forgery or evading the payment of customs duties.

4_Freeze the bank accounts of 3 companies as well as several 5 reserve figures for opening letters of credit and provide documents to banks on the supply of goods without being matched supporting documents proving the validity of these supplies from the Customs Authority.

5_Prohibition of dealing with several 8 customs brokers and referring them to the Attorney General for falsifying some customs declarations(Libyan Audit Bureau, 2015).

4.4 Manipulation of Letters of Credit and documents submitted for collection (2016):

-Letters of credit and foreign remittances executed by commercial banks during the years 2014-2016 amounted to about 47 billion dollars, and despite the discovery of fraud and manipulation of these transfers, no effective practical measures have been taken by the Central Bank towards these banks that will deter It addresses these phenomena and obliges banks to properly implement activities related to remittances.

-Commercial banks pass supply documents containing a clear indication of the existence of suspicion of fraud, once the illogical prices and quantities that do not match the size of the containers, as well as the lack of interest in verifying the financial centers of the supplier companies, the capital of most of which is 15 thousand dinars, while we find it granted letters of credit For the supply of goods in the hundreds of millions, as well as the bank, does not care to request licenses of these companies or verify that they meet the conditions for opening letters of credit, which led to the conversion of hard currency abroad without entering the corresponding goods and goods at prices and specifications commensurate with the values of these transfers.

-Many commercial banks to open letters of credit and the use of correspondents their documentary credit level of global banking is weak, in addition to the failure of commercial banks not to set clear and accurate conditions and meet the initial invoices, while neglecting the request for adequate documents when opening letters of

credit, in addition to weak procedures for the settlement and closure of letters of credit after The arrival of goods without serious verification of the extent of its implementation following its purpose to meet the requirements.

-Opening letters of credit and approving collection documents in public banks through clearing instruments drawn on private banks using the method of recycling the instruments. For example, account No. 8988-207-017 in the Republic of Zliten opened letters of credit worth 25 million dinars, while its total cash deposits were less than 8 million dinars, as well as the account number 13753-205-051 of the main commercial bank used to obtain a documentary credit of 15 million dinars while no cash deposit was made.

-Opening new accounts during 2016 and using them to obtain letters of credit and collection fees within one month of opening them in violation of the Central Bank of Libya circular No. 2/2016 (Libyan Audit Bureau, 2016).

- Commercial procurement operations are carried out through letters of credit and randomly collecting documents and without economic bases or objectives in the absence of the government and the Ministry of Economy to benefit from these resources to achieve the greatest benefit, where transfers are made through the Central Bank alone, which determines the types, quantities, and supplier through Approvals granted to commercial banks without having the necessary data or data to enable it to channel funds in the right way and through the right supplier.

As a result, crimes involving money laundering through letters of credit were rife and traded again by re-laundering some of them and pumping them into the economy at prices.

These crimes were widespread in the society and became a phenomenon practiced by a large number of citizens to the extent that the percentage of corruption in some samples reached 100% of the letters of credit examined, and the SAI used the means available to combat it, among its procedures. Regarding the cases detected:-

- Referring the criminal component to the Office of the Attorney General for Competence, following the Code of Criminal Procedure.
- Refer the disciplinary and underperformance aspects to the Administrative Control Authority and the Central Bank.
- Enumerate the smuggled funds and refer them to the Central Bank of Libya for direct return in the same currency in which they were smuggled following Law No. 1 of 2005 on banks, which authorized the Central Bank to manage foreign exchange and

the fact that the exit of these funds from their accounts abroad.

- Issuing suspension orders for bank officials who cause damage and issuing a recommendation to relieve them of their positions and not to enable them from any leadership positions.
- Freezing the accounts of companies and persons that have taken over public funds and seizing the balances therein in preparation for the recovery of smuggled funds.
- Spreading this kind of corruption on the media and public opinion as a pervasive phenomenon that requires intensified efforts to combat and eliminate it, following international recommendations in the fight against corruption.(Libyan Audit Bureau, 2016).

4.5 Manipulation and Fraud and Cheat in Letters of Credit (2017):

The phenomenon of seizing foreign exchange from the state's assets abroad, using fictitious imports, continues to be manipulated, where letters of credit and collection fees are manipulated in the smuggling process, through some methods of counterfeiting and fraudulent reports (2015,2016).

To prevent and prevent their recurrence, the concerned parties are still stalling in taking serious measures of reform and are continuing the same approach that has cost the state billions. Dollars of its foreign exchange reserves with little benefit.

In particular, the SAI emphasizes that unless the problem is tackled at its roots, its causes are eliminated economic reforms are dealt with and the exchange rate differential is dealt with professionally and practically, it will not work with it to combat smugglers who will always find a way to circumvent the gaps that realize their goals (Libyan Audit Bureau, 2017).

In this report, the Board reviews samples of cases of foreign currency smuggling abroad using letters of credit and collection fees documented during the exercise of its control functions in 2017 from operations carried out in 2016 and 2017, which amounted to more than \$ 433 million. As follows:-

Smuggling method	Number of companies	The value of credits (USD)	Smuggled money (USD)	Smuggling rate
Packing Manipulations	6	20,663,750	10,331,875	%50
Supply part of the goods and cover the difference by manipulating documents	16	45,700,279	33,539,097	%73
Manipulation of live cattle weights	3	11,989,000	7,140,147	%60
Fully fabricating supply documents	6	9,805,535	9,805,535	%100
Supply of waste, bricks, water, and empty containers	9	8,225,110	8,225,110	%100
Total for audited Appropriations	40	96,383,674	69,041,764	%72
Abandoned containers in ports and cases of supplying water containers instead of goods and supplies *	105	265,000,000	265,000,000	%100
The total money smuggled is equivalent			334,041,761	USD

* .. The value represents an estimate of the volume of smuggled funds as an arithmetic average of the cost of 719 water containers and waste was confined to appropriations opened during the years 2016, 2017, the number of 158 credits granted to 105 companies listed by name and number within the context of this report.

Table (4.1): Shows foreign currency smuggling abroad using Letters of Credit

Source: (Libyan Audit Bureau, 2017)

-During the year 2017, the Audit Bureau, in cooperation with some bank staff, managed to suspend and implementation a total of 24 Letters of Credit and collection fees showing that they were opened by cheat to capture foreign currency and not supply goods worth more than \$ 34 million as follows:- (Libyan Audit Bureau, 2017).

T	Banks	Companies	The credential or Document value	Currency Type
1	NuranBank	Local Libyan companies	3,453,850	USD
2	NuranBank		3,752,000	USD
3	NuranBank		1,700,006	USD
4	NuranBank		3,694,548	USD
5	Sahara Bank		750,000	USD
6	Sahara Bank		949,200	USD
7	Sahara Bank		1,350,000	USD
8	Sahara Bank		52,000	USD
9	Sahara Bank		380,100	USD
10	Sahara Bank		1,610,000	EURO
11	Sahara Bank		1,794,000	EURO
12	Sahara Bank		1,614,450	USD
13	Sahara Bank		1,390,900	USD
14	Sahara Bank		996,400	USD
15	Sahara Bank		1,238,900	USD
16	Sahara Bank		1,300,000	USD
17	Sahara Bank		494,000	USD
18	Sahara Bank		971,000	USD
19	North Africa Bank		485,000	USD
20	North Africa Bank		1,216,762	USD
21	North Africa Bank		369,548	USD
22	North Africa Bank		1,897,000	USD
23	Alwafa Bank		2,000,000	USD
24	National Commercial Bank		2,000,000	USD
Total dollar			29,947,214	
Total Euro			3,404,000	
Total dollar equivalent			34,189,122	

Table (4.2): Shows the suspension of the implementation of Letters of Credit showing that they were opened by cheat to capture foreign exchange and not supply goods

Source: (Libyan Audit Bureau, 2017)

The following is an explanation and clarification of the cases of fraud and cheating that is carried out to capture foreign exchange from the state balances abroad with practical examples:-

4.5.1 Supply part of the goods and cover the difference by manipulating and fraud documents:

Foreign exchange is smuggled abroad through the transfer of the full amount of the credit to the beneficiary and the supply of a part of the quantity of the commodity only and covers the difference by falsifying bank documents by increasing quantities and prices, especially note that the majority of cases of this type of manipulation are done by:-(Libyan Audit Bureau, 2017)

Companies	The product	The value of credit	The currency	Proportion of what was supplied	The value of the smuggled money
Local Libyan Companies	Cooking oil	949,500	USD	%23	735,862
	Cooking oil	750,000	USD	%13	652,500
	Cooking oil	7,250,244	EURO	%11	6,483,183
	Milk Powder	2,800,000	USD	%40	1,680,000
	Baby Milk	1,200,000	EURO	%47	640,000
	Baby Milk	2,989,000	EURO	%42	1,729,000
	Rice (long grain)	1,999,500	USD	%5	1,899,525
	Cooking oil	5,610,000	USD	%20	2,428,588
	Milk	1,350,000	USD	%54	617,950
	Tomato paste	2,000,160	USD	%10	1,800,144
	Corn oil	2,890,000	USD	%50	1,445,000
	Sterilized milk	450,432	EURO	%5	431,332
	Cheese	576,000	EURO	%18	473,724
	Milk Powder	677,364	USD	%13	589,239
	Nido Milk	1,702,500	USD	%35	1,106,625
	Oil and Tomatoes	2,471,040	USD	%18	2,037,120
Tomatoes	1,893,750	USD	%30	1,325,625	

Table (4.3): Shows the Supply part of the goods and cover the difference by manipulating documents

Source: (Libyan Audit Bureau, 2017)

4.5.2 Packing Manipulations:

-Cash is smuggled abroad by circumventing the presentation of packing data in the credit documents where the credit is opened on the basis that the commodity is packed in cartons of 24 cartons and transfer the full value, but the same number of cartons and cartons are supplied. The value of the credit abroad without the state benefiting from all the quantity that was supposed to be provided. Examples include the following:-(Libyan Audit Bureau, 2017)

Companies	The product	The value of credit	The currency	Proportion of what was supplied	The value of the smuggled money
Local Libyan Companies	Milk Powder	1,600,000	USD	%50	800,000
	Tomato paste	2,300,000	EURO	%50	1,150,000
	Tomato paste	2,200,000	EURO	%50	1,100,000
	Tomato paste	4,360,000	EURO	%50	2,180,000
	Tomato paste	3,255,000	EURO	%50	1,627,000
	Tomato paste	3,920,000	USD	%50	1,960,000

Table (4.4): Shows Rig packing
Source: (Libyan Audit Bureau, 2017)

4.5.3 Manipulation and cheat of live cattle weights:

-Where a foreign exchange is smuggled abroad using collection fee documents for the supply of live livestock by misleading and circumventing in the statement of livestock data in number instead of weight, where the appropriations are opened with a certain number and high weights to the head, and when the supply is the same number of items to be supplied The estimated weights on which funds were transferred are shown in the following examples:-

Companies	The product	The value of credit	The currency	Proportion of what was supplied	The value of the smuggled money
Local Libyan Companies	Live calves	5,386,500	EURO	%50	2,693,250
	Live calves	2,687,100	EURO	%30	1,880,970
	Sheep	1,897,000	USD	%25	1,422,372

Table (4.5): Shows manipulation of live cattle weights

Source: (Libyan Audit Bureau, 2017)

4.5.4 Fully fabricating supply documents:

-Cases of tampering of credit documents or collection fees were discovered to smuggle their full value, where fabricated documents were presented and then manipulated to suggest that there were imports, but no goods were imported for the operation and the money was generated during the process the exchange rate is as follows:-(Libyan Audit Bureau, 2017)

Companies	The product	The value of credit	The Currency	Proportion of what was supplied	The value of the smuggled money
Local Libyan Companies	Tomato paste	972,000	USD	%0	972,000
	Live calves	2,000,000	EURO	%0	2,000,000
	Milk cans	2,587,560	EURO	%0	2,587,560
	Tomato paste	715,968	EURO	%0	715,968
	Tomato paste	1,797,922	EURO	%0	898,961
	Live calves	1,269,450	EURO	%0	1,269,450

Table (4.6): Shows fully fabricating supply documents
Source: (Libyan Audit Bureau, 2017)

4.5.5 Supply of waste, bricks, water, and empty containers:

-The most famous cases of manipulation and cheating, which is one of the clearest pieces of evidence that have been touched by the opinion of the eye and are certain that the state's funds abroad aimed at weakening the souls are the transfer of funds to supply goods, but instead are seized foreign exchange and the supply of empty containers or waste containers and water are examples:-(Libyan Audit Bureau, 2017)

Companies	The Product to be Supplied	The Value of credit	The Currency	The proportion of what was Supplied	Containers Case
Local Libyan Companies	Tomato paste	828,240	EURO	%0	Rotten tomatoes and water
	Tomato paste	1,003,926	USD	%0	Rotten tomatoes and water
	Sugar	500,000	USD	%0	Bricks and water
	Rice	1,120,000	USD	%0	Rotten rice and water
	Baby Milk	888,122	USD	%0	Bricks and water
	Nido Milk	920,000	USD	%0	waters
	Oil	1,056,000	USD	%0	waters
	Foodstuffs	485,000	USD	%0	Water and tiles
	Foodstuffs	1,216,762	USD	%0	Water, tiles and bricks

Table (4.7): Shows the Supply of waste, bricks, water, and empty containers

Source: (Libyan Audit Bureau, 2017)

-In addition to the detailed samples presented in the previous table, the report of the inventory and inspection of the abandoned containers at the port of Tobruk in the Customs Authority showed some 207 containers belonging to companies that obtained letters of credit for the supply of goods and inputs shows that it contains: (Water, Bricks, Worn fabrics, Scrap Air Conditioners) Where these appropriations were used to seize foreign exchange as shown in the following table:-(Libyan Audit Bureau, 2017)

Companies	The number of containers	Type of goods
Local Libyan Companies	30	Waters
	46	Water, bricks, tiles
	16	Waters
	9	Bricks, water
	4	Mineral water
	8	Scrap air conditioners, worn fabrics + water
	9	waters
	20	Residual conditioners + water
	4	Waters
	16	Waters
	3	Waters
	2	Mineral water
	2	Worn out clothes + scrap conditioners
	2	Worn out clothes + scrap conditioners
	12	Tiles
12	waters	

Table (4.8): Shows some 207 containers belonging to companies that obtained Letters of Credit for the supply of goods and inputs Shows that it contains: (Water, Bricks, Worn fabrics, Scrap Air Conditioners) Where these appropriations were used to seize foreign exchange

Source: (Libyan Audit Bureau, 2017)

-In addition to the inventory of water containers supplied to the Libyan ports through the release granted by the Food and Drug Control Center, which amounted to 89 companies received 524 water containers during 2016, knowing that the State did not grant any credit This indicates that these containers were supposed to supply goods and foodstuffs against letters of credit and collection fees.

Companies	Number of credits	The port	History	The number of containers
Local Libyan Companies	13	Port of Misurata	2016/06	45
	1	Port of Misurata	2016/07/24	2
	2	Port of Misurata	2016/09/21	2
	1	Port of Misurata	2016/03/14	2
	1	Port of Misurata	2016/03/16	1
	1	Port of Misurata	2016/01/07	1
	2	Port of Misurata	2016/06	2
	1	Port of Misurata	2016/01/18	1
	2	Port of Misurata	2016/09/08	63
	1	Port of Misurata	2016/11/02	21
	1	Port of Misurata	2016/11/02	19
	1	Port of alkhms	2016/06/16	1
	1	Port of alkhms	2016/02/29	2
	1	Port of alkhms	2016/06/16	3
	2	Port of Tobruk	2016/04/03	6
	8	Port of Tobruk	2016/05/02	32
	1	Port of Tobruk	2016/02/29	5
	1	Port of Tobruk	2016/02/29	1
	1	Port of Tobruk	2016/02/25	2
	1	Port of Tobruk	2016/05/04	1
	1	Port of Tobruk	2016/05/25	2
	1	Port of Tobruk	2016/01/24	3
	1	Port of Tobruk	2016/02/15	3
	1	Port of Tobruk	2016/03/30	3
	1	Port of Tobruk	2016/04/17	1
	1	Port of Tobruk	2016/04/20	3
	1	Port of Tobruk	2016/01/04	1
	1	Port of Tobruk	2016/03/02	2
	1	Port of Tobruk	2016/02/29	4
	1	Port of Tobruk	2016/03/02	2
	1	Port of Tobruk	2016/03/29	3

Companies	Number of credits	The port	History	The number of containers
Local Libyan Companies	1	Port of Tobruk	2016/01/04	2
	1	Port of Tobruk	2016/04/20	1
	1	Port of Tobruk	2016/03/30	2
	1	Port of Tobruk	2016/04/03	3
	1	Port of Tobruk	2016/01/04	1
	1	Port of Tobruk	2016/04/10	1
	1	Port of Tobruk	2016/01/04	2
	1	Port of Tobruk	2016/02/25	2
	1	Port of Tobruk	2016/04/03	2
	1	Port of Tobruk	2016/03/02	4
	1	Port of Tobruk	2016/04/04	2
	1	Port of Tobruk	2016/03/29	2
	1	Port of Tobruk	2016/03/31	3
	4	Port of Tobruk	2016/02	25
	3	Port of Tobruk	2016/02/01	3
	1	Port of Tobruk	2016/03/31	2
	1	Port of Tobruk	2016/05/04	8
	1	Port of Tobruk	2016/04/20	1
	1	Port of Tobruk	2016/03/30	2
	1	Port of Tobruk	2016/02/25	4
	1	Port of Tobruk	2016/08/17	3
	2	Port of Tobruk	2016/01/13	6
	1	Port of Tobruk	2016/04/20	3
	1	Port of Tobruk	2016/01/04	2
	1	Port of Tobruk	2016/02/14	1
	4	Port of Tobruk	2016/04/01	9
	1	Port of Tobruk	2016/04/10	1
	1	Port of Tobruk	2016/04/10	1
	1	Port of Tobruk	2016/04/20	2
	1	Port of Tobruk	2016/05/02	7
1	Port of Tobruk	2016/02/15	4	

Companies	Number of credits	The port	History	The number of containers
Local Libyan Companies	5	Port of Tobruk	2016/04/03	12
	1	Port of Tobruk	2016/03/02	2
	1	Port of Tobruk	2016/04/20	3
	1	Port of Tobruk	2016/04/20	3
	1	Port of Tobruk	2016/01/04	8
	1	Port of Tobruk	2016/02/25	4
	1	Port of Tobruk	2016/05/12	7
	6	Port of Tobruk	2016/05/04 ,03	25
	4	Port of Tobruk	2016/04/03	20
	1	Port of Tobruk	2016/03/14	3
	1	Port of Tobruk	2016/02/15	3
	1	Port of Tobruk	2016/02/25	6
	2	Port of Tobruk	2016/04/10	12
	1	Port of Tobruk	2016/01/14	1
	4	Port of Tobruk	2016/05/03	12
	1	Port of Tobruk	2016/05/11	2
	3	Port of Tobruk	2016/05/02 ,01	10
	2	Port of Tobruk	2016/04/01	11
	1	Port of Tobruk	2016/02/15	2
	1	Port of Tobruk	2016/06/02	2
	1	Port of Tobruk	2016/03/30	3
	1	Port of Tobruk	2016/04/20	5
	1	Port of Tobruk	2016/04/20	2
	2	Port of Tobruk	2016/05/03	5
	1	Port of Tobruk	2016/01/25	5
	1	Port of Tobruk	2016/03/31	1
	1	Port of Tobruk	2016/02/25	5
Total number of companies		105	Includes water containers and abandoned containers	
Total number of credits		158		
Total number of containers		719		

Table (4.9): Shows these containers were supposed to supply goods and foodstuffs against Letters of Credit, But the water was supplied instead

Source: (Libyan Audit Bureau, 2017)

4.5.6 Foreign beneficiary companies:

-Some foreign companies were listed abroad to which the money was smuggled as follows:-

T	Foreign companies (beneficiaries of smuggled funds)	Country
1	INTEREST FOODSTUFF TRD CO DUBAI	The United Arab Emirates
2	WHITE IVORY GENERAL TRADING L.L.C DUBAI	The United Arab Emirates
3	UNITED FZC DUBAI	The United Arab Emirates
4	AL EBEL AL SHAMKAH GENERAL TRADING L.L.C DUBAI	The United Arab Emirates
5	LAKE LAND FOODSTUFF TRADING L.L.C DUBAI	The United Arab Emirates
6	LUBDAH INTERNATIONAL CO L.O.C DUBAI	The United Arab Emirates
7	SEVENTY-FIVE GENERAL TRADING L.L.C DUBAI	The United Arab Emirates
8	AL MAMAR TRADING L.L.C DUBAI	The United Arab Emirates
9	PURE FLAVOUR FOODSTUFF TRADING L.L.C DUBAI	The United Arab Emirates
10	ROYAL VALLEY GENERAL TRADING L.L.C DUBAI	The United Arab Emirates
11	UPGRADE POINT GENERAL TRADING L.L.C DUBAI	The United Arab Emirates
12	SIDRA CARGO GENERAL TRADING L.L.C DUBAI	The United Arab Emirates
13	QINGDAO MED INTERNATIONAL GENERAL TRD L.L.C DUBAI	The United Arab Emirates
14	WHITE EMPALA GENERAL TRADING L.L.C DUBAI	The United Arab Emirates
15	LIFE INK FOODSTUFF TRADING L.L.C DUBAI	The United Arab Emirates
16	TAX FREE SERVICES LTD, MALTA	Malta
17	AKAKUS INTERNATIONAL LTD, MALTA	Malta
18	S.A.M INTERNATIONAL LTD, MALTA	Malta
19	ACTION CORPORATION LTD, MALTA	Malta
20	ALFA S.R.L. ROMA ITALY	Italia

Table (4.10): Shows foreign companies were listed abroad to which the money was smuggled

Source: (Libyan Audit Bureau, 2017)

-It was noted that the majority of the shipping documents related to the food certificates supplied from the UAE during 2016 are accompanied by a health certificate issued by the Government of Ajman showing that they were fabricated according to an office issued by the UAE Ministry of Foreign Affairs stating that this model has been discontinued from 2013. The year 2006.

-It was also noted that most of the goods of the companies that granted approvals for the supply of foodstuffs during the month of Ramadan following the publications of the Central Bank of Libya, in particular, have violated these leaflets, where it shows the entry of goods after the month of Ramadan (Libyan Audit Bureau, 2017).

4.6 Fraud and Cheat in using the system of Letters of Credit managed by the Central Bank of Libya

4.6.1 History of the Central Bank of Libya:

The Central Bank of Libya is an independent and wholly-owned financial institution of the Libyan state, and the monetary authority is represented by it. The law establishing the Central Bank and its subsequent laws, the most recent of which was the Banking Law No. (1) of 2005, The national economy within the framework of the state's general policy.

The board of directors of the Central Bank of Libya is in charge of managing the bank's affairs and developing internal regulations related to its operations and in administrative and financial affairs, and the board of directors consists of the governor as chairman and the deputy governor as vice president and some five other members.

The city of Tripoli is the headquarters of the General Administration of the Central Bank of Libya, and the bank provides its services to commercial banks and their branches throughout the country through its branches in Benghazi, Sirte, Sebha, and issuance departments in the city of Gharyan and Al-Bayda.

The Central Bank of Libya began its activities on the first of April 1956 AD, thus replacing the Libyan Monetary Committee, which was established in 1951 AD, and among its functions was to maintain coverage of the issued currency with sterling assets, and at the beginning of its activity it had no role in monitoring the offer Money or bank credit or in banking supervision, and over time the powers of the Central Bank of Libya expanded to include the following tasks:-

- Organizing and issuing paper and coin currency.
- Maintaining the stability of the Libyan currency at home and abroad.
- Managing the country's reserves of gold and foreign currencies.
- Organizing bank credit in terms of size, type, and price to ensure meeting the real needs of economic growth and monetary stability.
- Take the necessary measures to address economic or financial turmoil, whether international or local.
- Work as a banker for commercial banks(source:<https://cbl.gov.ly/2021>).
- Monitor commercial banks, ensure the integrity of their financial conditions, monitor the efficiency of their performance, and guarantee the rights of their customers.
- Work as a banker and financial agent for the state and its public institutions.

-Providing advice to the state regarding the formulation and evaluation of economic and financial policy.

-Foreign exchange control.

-Carrying out the tasks or operations that are usually performed by any other central bank, and the tasks that may be assigned to it according to the Banking Law or any international agreements to which the state is a party.

-Issuing and managing loans contracted by the state.

-The most important functions of the Central Bank of Libya.

First: Issuing and organizing the currency The national currency unit is the Libyan dinar and is divided into one thousand dirhams, and it is linked with the SDR unit basket since 18/03/1986 at a fixed price, which according to the last amendment in 14/06/2003 is equal. (0.5175) SDR unit for every one Libyan dinar and the bank publishes the exchange rates of the Libyan dinar against foreign currencies according to the change of those currencies against the SDR unit, which is the legally authorized body to issue the national currency (paper and metal) and usually covers the currency issued for trading in gold and currencies Convertible foreign.

Second: Reserve management and foreign exchange control The bank manages Libya's reserves of gold and foreign currencies and selects the appropriate investment tools and the value that is invested from each currency, taking into account developments in exchange rates and the financial markets to ensure the safety and profitability of these investments, and allows commercial banks to keep foreign assets following the instructions issued by them from From time to time, the Central Bank of Libya has also relaxed foreign exchange controls and liberalized the current account to enhance economic stability and stabilize the general level of prices.

Third: The State Bank The Central Bank of Libya is the financial agent of the state as it maintains accounts, revenues, and public financial expenditures, disburses, transfers, and collects funds locally and abroad, as well as manages letters of credit operations on behalf of its clients and provides its various banking services to public administrative units.

Fourth: the bank of banks The Central Bank of Libya maintains the mandatory cash reserve required from commercial banks as a percentage of their customer's deposits, in addition to accepting time deposits from these banks in exchange for interest. The central bank is the last resort for commercial banks as it can grant them unusual loans in the face of any exceptional circumstances that threaten monetary and

banking stability in the country. Libya. Fifth: To control and regulate banking activity The Central Bank examines and analyzes the financial positions of commercial banks and makes sure that they maintain the required percentages related to the mandatory cash reserve and legal liquidity. It also monitors the implementation of the credit and banking policies by commercial banks that it draws, and provides its services to commercial banks in the field of clearing Sukuk and in the area of centralized credit risk.

Sixth: The role of the Central Bank in economic development The Central Bank of Libya has a direct and effective role in the economic development of the country by assisting financial institutions in attracting and directing savings towards financing projects and production and service units, both public and private. It also contributes to strengthening the state's financial position by managing its gold and foreign currency reserves, and it plays a non-role. Directly in economic development with the influence, it embodies on the activity of commercial banks, especially through controlling the monetary mass and adopting a monetary policy capable of enhancing domestic and foreign confidence in the strength and stability of the Libyan currency and the economy in general, as well as by encouraging and directing domestic savings by individuals and legal entities. To invest in the productive and service sectors(source:<https://cbl.gov.ly/2021>).

4.6.2 Controls regulating the use of foreign exchange for opening Letters of Credit:-

1-Banks undertake to approve to open a letter of credit for all legally permitted goods and services. The entity requesting the documentary credit must have the bank number (CBL -key).

2-It is required to verify the validity of the data related to the entity requesting the opening of the credit, and that no reasons are preventing continuing to deal with it, before starting the procedures for opening the documentary credit.

3-The maximum limit for the value of a single documentary credit shall be (3) million dollars or its equivalent for service credits, (5) million dollars or its equivalent for commercial activities, and (10) million US dollars or its equivalent for industrial activities.

4-The value of the credit and the fees imposed shall be fully covered by the available balance in the account, and it is prohibited to grant credit facilities of all kinds for opening a letter of credit until further notice.

5-Banks are obligated to complete the procedures for opening credits within three working days from the date of receiving the application.

6-The agency requesting accreditation must submit an insurance document for the goods supplied to the bank, the approval of the credit, based on the initial invoice, and it shall be issued by a local insurance company.

7-Submit an inspection and inspection certificate issued by a local or international inspection company. The inspection company must have a bank number (CBL-Key).

8-Submit the original establishment certificate for the imported goods issued by the legally competent authority in the exporting country.

9-The initial invoice shall be issued by the exporting or manufacturing company or one of its authorized agents. As a minimum, it must include all data related to the type, description, weight, quantity, and price of the goods or services supplied.

10-The agency requesting accreditation must have a valid final statistical symbol.

11-The agency requesting accreditation must present the certificates of tax payment and the security dues legally determined, and they are required to be original and recent (Posted 8/2018, Central Bank of Libya).

4.6.3 General Controls:

1-Adherence to and adherence to the anti-money laundering and terrorist financing controls stipulated in Law 1013/2017 and the publication of the Governor of the Central Bank of Libya No. (1) of 2018.

2-The commitment of suppliers to submit original customs declarations indicating the entry of the imported goods to the official outlets in Libya provided that these original customs declarations are submitted to banks within two months from the date of receiving the documents, and all banks must inform the Banking and Cash Supervision Department about cases of failure to submit declarations Timely customs required.(Posted 8/2018, Central Bank of Libya).

4.6.4 Conditions for opening Letter of Credit:

1-The value of the cash cover in exchange for opening the documentary credit shall be 130% of the value of the credit, and the additional percentage shall not be released except after verifying the correctness and integrity of the arrival of supplies, and full payment of customs and tax duties following the mechanism followed in this regard.

2-The restriction of dealing with correspondents in the countries of the European Union, America, Canada, or in which the Libyan side owns a share in its shares while obliging the correspondents abroad to fully adhere to international norms and auditing

standards approved by the central banks in these countries, and the credit department must request the correspondent bank, According to a separate letter from the SWIFT telegram, to ensure the correctness of the data related to the issuing (beneficiary) company abroad, and in particular the following:

- Its financial solvency.
- The extent of her practice of the same activity, and her experience in its field.
- Its file is free from any legal reservations or suspicions of corruption or money laundering.
- Verify that the approval person has no share in this company.

3-It is prohibited to trade in commodity documents except through the correspondent bank appointed by the bank that opens the credit.

4-Submission of an export declaration (original) to be stipulated in the approval request and is included in the documents for shipment of the goods, provided that it is approved by the beneficiary in the country of export, and certified by the competent authorities in that country following the procedures followed(Posted 2/2016, Central Bank of Libya).

5-Presenting an inspection certificate issued by an international inspection company, approved by the bank, to inspect goods according to the contract concluded with it, in which the company is obligated to perform its duties following generally accepted inspection standards, and that it bears legal responsibility for the inspection certificates issued by it in this regard, If the imported goods are food, medicine, or chemical materials, the inspection certificate must cover the conformity of the internal composition of the commodity with the specifications written on it from abroad and the conformity of the validity date written on it with the actual expiry date.

6-Presenting a health certificate from the relevant authorities in the country of export, stating that the commodity is free of rays or formulations harmful to health.

7-Submitting a certificate of origin for the imported goods certified by the Libyan embassy or the legally competent authority in the country of export.

8-Shipping is limited to the global liner shipping lines, which have a database through which the movement of the tanker can be tracked.

9-Land freight is only accepted for goods manufactured in border countries, provided that the shipment is from the same country (Posted 8/2018, Central Bank of Libya).

4.6.5 Procedures for opening Letters of Credit:

1-When opening the documentary credit, the separation between the terms of reference and the specification of responsibilities should be taken into consideration by working to clear all the stages that support the decision to open the credit.

2-The procedures for approving and accepting the initial invoice shall be within the competence of the letter of the credit department in the banking branch, as it is responsible for implementing and documenting the decision to accept the initial invoice, according to a form prepared by the bank for this purpose, stating the reasons and criteria for acceptance or rejection, to be approved by the head of the department, along with The internal audit department in the branch, and this stage should not exceed three days from the date of receiving the initial invoice, taking into account the following:-

- That the initial invoice was issued by the issuing company, and if the commodity consists of foodstuffs, medicines, cleaning materials, mother and child supplies, and other goods of a sensitive nature, it is required that the exporter by the manufacturer or one of its approved agents, and as a minimum, it must include the initial invoice

The following information:-

A-All data relating to the type, description, quantity, and weight of goods or services that will be supplied from abroad, following the contract concluded with the external supplier, and the invoice is part of the contract.

B-To is clear and detailed to describe the imported goods in quantity, weight, and quality.

C-The name of the manufacturer, the brand, and the place of manufacture.

D-The specifications of the goods and their internal composition, about food, medicine, chemicals, and other commodities that are easy to manipulate by fraud and change, especially goods purchased from free zones.

- Not accepting the initial invoices issued by the general trading companies.
- Ratification of the initial invoice from the Ministry of Economy, and obtaining a statement to ensure the achievement of the desired economic goals of opening the credits, which are represented in the following:

-That the prices are in line with the specifications and type of the supplied goods.

-Goods are not prohibited and not harmful.

-That there be a balance in the quantities authorized to enter the country so that they correspond to the absorptive capacity of the local market.

3-That the request to open the credit includes the customer's authorization to the bank not to accept any material difference in the specifications, prices, quantities, and weights of the supplied goods or services.

4-The banking branches refer requests to obtain approval to open a letter of credit for presentation to the competent committee in the bank, according to a form prepared by the bank for this purpose, and attached to the application form for opening the credit so that it is approved by the bank's customer, supported by the initial invoice that has been accepted, and in which all the required documents are listed.

5-The authority to approve the opening of the credit shall be through a committee formed by the bank for this purpose provided that it includes in its membership both: credit management, risk management, compliance, and internal Murabaha, including the department concerned with external operations and other related departments, and it exercises its competencies according to a clear mechanism that includes Verify that the following conditions are met: (Posted 2/2016, Central Bank of Libya).

- A complete file for the entity requesting the opening of the documentary credit at the Current Accounts Department, which includes all original and recent documents and documents related to the activity, including the Client Identity Verification Form (KYC).

- Fill out the data of the (KYC) form for the applicant for accreditation in the banking system, to obtain a special number (CBL - CLIENTKEY) for legal entities and individuals, and update the data contained therein whenever required.

Not considering the request to open or cover any documentary credit for a bank customer who does not have a number for the banking system (CBL - CLIENT).

- Fill out the application for opening the credit electronically by the bank, and transmit it through the unified banking system, attached to the referral letter from the bank.

- That the entity requesting accreditation has at least one year passed since opening its account with the bank, taking into account the volume of its activity and the movement of its deposits during the period, provided that the account statement is attached to the request.

- The entity's undertaking to limit its dealings in the field of opening letters of credit with two of the banks in which it manages its accounts.

- The current accounts section of the branch verifies the validity of the company's incorporation from the legal point of view and provides all the documents required to

publicize the company.

- The agency submits an original and recent certificate addressed to the bank stating that all tax and security fees prescribed by law have been paid.

- Presenting the statistical code card issued by the customs authority, so that it is original and valid (Posted 2/2016, Central Bank of Libya).

- Complete data on fixed assets, including warehouses, administrative headquarters, and means of transportation owned by the entity, certified by the external auditor with the validity of the ownership documents, and in case they are leased, a lease contract shall be submitted with them issued by a contract writer and certified by the Tax Authority.

- A statement of the stores owned and leased for the suppliers of meat, food, and medicine, and a certificate from the Food and Drug Control Center that the stores are prepared and suitable for storing these items.

- The national number of the entity's commissioner, board members, and shareholders, and a certificate from the Information and Documentation Center at the Ministry of Labor stating that the company's commissioner has not occupied another position in the public sector.

- Verify that the entity's commissioner and members of the board of directors have reached the legal age of majority.

6-The committee concerned with studying requests for opening letter of credit issues a certificate stating that it has studied the file of the applicant requesting opening the credit and that it was found to fulfill all financial, legal, and administrative aspects, and there is no objection to opening the credit, and to be approved by the general manager of the bank.

7-The committee shall keep a copy of the certificate of approval to open the credit, in a file with the reporter of the committee, who records it with a record of its own, and forwards the original to the letter of the credit department in the banking branch.

8-The competent committee of the bank shall present the requests for appropriations that have been approved by the Central Bank of Libya, to request coverage of their value in foreign exchange, within the specified period according to the decision of Mr. / Governor No. (96) of 2015 issued on 4/30/2015.

9-The stage of external correspondence and its circulation is following the bulletins issued with the unified rules and customs of letter of credit, and the interpretation of responsibilities and obligations in the documentary credit of international commercial

terms is subject to the emphasis on including the main data of the initial invoice in the data of the SWIFT telegram and referred to as part of it, namely:

- A- The indicative number of the bill.
- B- The date of the invoice.
- C- A specific description of the supplied goods.

10-Emphasizing on the bank appointed to audit documents by refusing to pay when it notices any fundamental difference related to weight, type, price, or specifications so that the data contained in the initial invoice are compared with the inspection certificate, health certificate, standard specification certificate, etc...(Posted 2/2016, Central Bank of Libya).

11-The bank must specify the name of the correspondent and the branch.

12-The bank shall not deliver any documents related to the release of imported goods using a letter of credit, except by an official referral letter issued by the bank and addressed to the customs authority. If the bank delivers the documents to the customer or the customs broker to complete the procedures for releasing the goods at the customs authority, it is common for the documents delivered to be a true copy and to be forwarded by a referral letter from the bank to the customs authority signed for receipt by the customer. In all cases, the documents shall be attached to Form No. (300) for each import operation, provided that the form includes a serial number, the method of transfer, the number and value of the shipment, and other key data related to the process, and it must be certified with a heat seal.

13-The bank shall not accept or receive any customs declarations that are not transferred according to an official letter issued by the customs authority, addressed to the bank regarding the release of the imported goods, provided that the customs declaration includes the serial number of the form (300) referred by the bank to the customs authority (Posted 2/2016, Central Bank of Libya).

4.6.6 Letters of Credit at bank branches:

Through examining a sample of letters of credit in some bank branches in the regions, some observations were revealed, and we present them as follows:

1_A record of letters of credit was not kept in violation of the controls and conditions for accepting and opening letters of credit according to Circular No. 2/2017 issued by the Central Bank of Libya, which indicated the need for the concerned department to document the customer's request with the special record for that and fill out a form to receive documents in two copies bearing the number that was written down In the

special record, a copy is given to the customer specifying the date of receiving the request, provided that the form is approved by the concerned department.

2_Most of the bank branches in the sample do not inform the customer because he rejects his request for letters of credit according to an official letter, in violation of the controls and conditions for accepting and opening letters of credit following Circular No. 2/2017 issued by the Central Bank of Libya(Libyan Audit Bureau, Tripoli, Libya, 2018).

3_Violation of Circular No. 2/2017 issued by the Central Bank of Libya with the necessity to bring a statement that the General Commissioner of the company or the person managing it does not occupy any public position.

4_Violation of Circular No. 2/2017 issued by the Central Bank of Libya with the necessity to bring a certificate of validity of the stores for foodstuffs and medicines to be supplied from among the documents required to open the letters of credit.

5_Violation of Circular No. 2/2017 issued by the Central Bank of Libya regarding the necessity to attach a statement of fixed assets or lease contracts to the location of the company's conduct of its activities certified by an external audit office, among the documents required to open the letters of credit.

6_Violation of Circular No. 2/2017 issued by the Central Bank of Libya regarding the necessity to present a certificate of payment of security dues.

7_In most bank branches that have been taken as a sample, the approval of Form No. (3) regarding the request to open a credit by the authorized signatories is not fulfilled (the appropriations section, the signature of the branch manager, and the signature of the internal auditor).

8_Violation of Circular No. 2/2017 issued by the Central Bank of Libya and the judge that the customs declaration must include the serial number of the form (300) referred to the bank.

9_Some branches of the bank did not comply with informing the Banking and Cash Supervision Department of the names of the parties that failed to fulfill their required obligations, which is to bring the customs declaration to take the necessary measures towards them.

10_Most of the letters of credit do not include the articles of association of the company.

11_The absence of requests to open letters of credit for some letters of credit in violation of Circular (2/2017) regarding the controls regulating the use of foreign

exchange for opening letters of credit.

12_Most of the files on letters of credit lack original certificates addressed to the bank stating the payment of all tax dues.

13_Most of the letters of credit have expired, in addition to the non-commitment of most current banks to settle the credits that the purpose of opening them has expired.

14_Most companies' files lack the beneficiaries of letters of credit for account statements based on their bank accounts(Libyan Audit Bureau, Tripoli, Libya, 2018).

4.6.7 Corruption of the banking sector:

The abuses and violations committed by the banking sector are one of the main causes of the current deterioration of the economic situation, as it is responsible for the operations of preserving funds and disposing of them, The deficiency and negligence of the Central Bank of Libya in exercising its supervisory and supervisory jurisdiction over commercial banks and its passive handling of reports and reports of corruption on banks contributed to the further exacerbation of the crisis and the spread of corruption in this sector.

The central bank's negativity towards the corruption of the banking sector:

Crimes of money laundering and smuggling increased through the manipulation of funds and foreign transfers, and the completion of fictitious supply transactions. It was assumed that the work of the Central Bank in light of the crisis was to supervise, control and regulate banks, develop their work, complete electronic systems, and combat corruption that confuses their officials(Libyan Audit Bureau, Tripoli, Libya, 2016).

4.6.8 Governance at the Central Bank of Libya:

During the current period, the Central Bank lacks the simplest foundations of governance. By studying and diagnosing the legal situation and the reality of the bank's situation, it is noticed that it is outside of any sovereign control, as there is no legislative authority representing the General Assembly to hold the Board of Directors accountable, which does not exist in the first place, which led to the governor taking for fundamental and strategic decisions without being approved by the Board of Directors, including the following, for example: -

- Some of the central bank's actions were characterized by an imbalance as it takes hasty measures and then returns from them after the occurrence of damage sometimes, and vice versa, it refrains from taking an important decision, confuses the situation, then returns to its opinion and implements it after it affected its decision negatively,

and examples of this are the following:

-His reluctance to provide coverage for letters of credit and foreign transfers for a period exceeding six months at the end of the year 2015 and the beginning of 2016, and to begin providing them after the economy was affected by this procedure in contradiction to the controls that he circulated according to Circular No. 1 of 2016 regarding the letter of credit.

-The committee in charge of following up the appropriations by the Central Bank of Libya deducting or executing some of the appropriations released from the intermediate accounts of the Central Bank of Libya, without referring to the competent bank that opened the credit, which resulted in an inflated volume of suspensions with commercial banks and the overlap of their balances in a way that is difficult to settle Due to the unavailability of the intermediary account transaction documents.

- In November 2016, the Central Bank of Libya blocked the system of letters of credit from the Audit Bureau, which made it impossible to follow up on the manipulation of letters of credit and money smuggling, which went a long way and was able to discover many cases(Libyan Audit Bureau, Tripoli, Libya, 2016).

4.6.9 Banking Supervision Department:

Through the Bureau's examination and review of bank accounts and the evaluation of the banking operations carried out by them, the weak effectiveness of the Banking Control Department in terms of monitoring commercial banks and achieving effective control over their business and ensuring the soundness of their financial positions and evaluating their performance through an annual plan that defines the objectives and work programs deficiencies include:

1_Documentary appropriations and external transfers made by commercial banks during the years 2014-2015 AD amounted to about 41 billion dollars, and despite what was discovered in terms of fraud and manipulation of these transfers, effective practical measures have not been taken by the management that would address the phenomena that would address these phenomena. Carrying out activities related to conversion operations.

2_It was noticed that there were many expired letters of credit without evidence of their renewal or closure, bearing in mind that they were old and the bank did not take any measures towards them.

3_The committee assigned to follow up the appropriations by the Central Bank of

Libya deducting or executing some of the appropriations released from the intermediate accounts of the Central Bank of Libya, without referring to the competent bank that opened the credit, The matter that resulted in an inflated volume of suspensions with commercial banks and overlapping of their balances in a way that would be difficult to settle due to the lack of documents for the movement of intermediate accounts. Therefore, the matter requires coordination with commercial banks to set up a mechanism or a temporary work plan that defines the method of deduction and implementation of the credits so that the amounts are guaranteed not to appear those outstanding amounts and growing suspense balances.

4_Inflating the amounts of local carry-over appropriations, their balances in most commercial banks that belong to public entities, where their balances in some banks exceeded the half-billion dinars barrier, which provides an opportunity to invest their funds by banks and to lose the opportunity to exploit the state's funds for public development projects. This requires urgent measures to be taken to transfer these balances to the general revenue account unless there are legal restrictions on them.

5_Failure of commercial banks to verify the existence of an unconditional approval from the Audit Bureau to disburse amounts or open letters of credit on transactions that exceed the values determined in legislation or supervisory controls(Libyan Audit Bureau, Tripoli, Libya, 2015).

4.7 How does Libya's multibillion-dollar trade finance scheme risks defrauding the country via London banks?(<https://www.globalwitness.org/en>, 2021).

Introduction:

Our new report reveals how it appears that Libya is losing millions of dollars annually by fraud in using the system of letters of credit managed by the Central Bank of Libya. While the system of letters of credit is a vital element in meeting Libya's needs for imports, it has suffered from misuse, which is continuing as indicated by our new evidence. Based on the financial information published by the Central Bank of Libya on Facebook, we created a database containing documentary credit transactions that were published between April and July 2020, whose value is close to \$ 2.5 billion. In addition to relying on interviews conducted with confidential sources, we wonder how Libya disburses letters of credit. Disseminating the database as a means of analyzing the movement of funds by way of letters of credit, in the hope that Libyan civil society groups, journalists, and citizens can track the effects of public money. (Global Witness) calls on the public authorities in Libya to place financial

transparency at the heart of peace dialogues, starting with the foreign exchange system such as letters of credit and letters of credit, by making the publication of their data and statements. This is essential to help build trust in public institutions at this pivotal moment for the country.

4.7.1 The most important conclusions:

1_The huge number of letters of credit issued with the testimony of our sources indicates a financial crime in force in the letters of the credit system, which costs a lot to the Libyan public treasury.

2_The rate of issuance of letters of credit between April and July 2020 exceeded in an unprecedented way the demand for some commodities. For example, the value of letters of credit approved for importing meat over 13 weeks exceeded the annual value of importing meat to Libya for the years 2016, 2017, and 2018 separately.

3_Questions about managing letters of credit extend to government procurement, where we investigated how to transfer a documentary credit of \$ 110 million in power generators to an Emirati company unrelated to the project by slightly changing the name of the contracting company. He proceeded to pay the amount through a Libyan-owned bank in London before suspending the documentary credit "on suspicion of corruption."

4_Senior officials in the Central Bank of Libya assume administrative positions in commercial banks owned by Libya abroad, which is an explicit conflict of interest. Most of the Libyan letters of credit enter the international financial system through the International PLC ABC Bank, which is based in London, which is a commercial bank indirectly owned by the Central Bank of Libya and headed by its governor.

5_We uncover serious loopholes in UK laws against money laundering and terrorist financing regarding "correspondent banks" that render them ineffective in identifying fraud in trade finance, conflict financing, and other types of financial crimes (<https://www.globalwitness.org/en>, 2021).

4.7.2 Continuous fraud in issuing Letters of Credit to the private sector:

Using open source investigation techniques, we created a searchable database of letters of credit issued for the benefit of the private sector, which amounted to approximately \$ 2.5 billion between April and July 2020, and by comparing it with commercial data for previous years, we see that the Libyan treasury funds are flowing abroad faster than the entry of goods. Concerned. The explanation that is closest to the truth is the continued misuse of the system on a large scale and at considerable cost to

the Libyan public treasury. We publish the database as a way to analyze money movements through a letter of credit, hoping that Libyan civil society groups will help, journalists and citizens to track the effects of public money and to show the tremendous potential for transparency if Libya relies on the publication operations carried out by the Central Bank of Libya by making the publication of the letters of credit data public in a manner. Complete following the principles of open data.

4.7.3 Letters of Credit for the public sector put public money in private hands:

The documents reviewed by Global Witness show how a documentary credit of \$ 110 million generators intended to meet the vital energy needs of the Libyan people was converted into a newly established Emirati company with a name almost identical to the original South African contractor. This case not only illustrates the weakness of the system of letter of credit but also shows how controlling the foreign currency of Libya has given the Central Bank of Libya a great influence on how public authorities spend public money.

This also has a broader link with global oversight and accountability for central banks, with the re-emergence of capital and exchange controls, financial sector debris, and spending on the COVID-19 pandemic, which has led to significant inflation in their account statements and the expansion of their work in many countries. Globally, central banks put ever greater amounts of public money in the hands of the private sector, and citizens have the right to know how public money is spent (<https://www.globalwitness.org/en>, 2021).

4.7.4 How do documentary Letters of Credit enter a system of international transfers through London?

The Central Bank of Libya has a network of commercial "correspondent banks" spanning five continents. It appears that the main intermediary for letters of credit is ABC Bank, where the Central Bank of Libya indirectly owns the majority of it.

Global Witness considers this dual role a blatant conflict of interest because it is a paid leadership position in an organization that benefits from its dealings with the Central Bank of Libya, This arrangement also raises questions about the independence of ABC Bank about due diligence when processing Libyan letters of credit.

Bank ABC has rejected our concerns and insisted that *"it takes its obligations related to combating financial crime very seriously and ensures compliance with applicable regulatory requirements and international best practices."* We do not

imply that ABC Bank has violated any laws or regulations related to these matters (<https://www.globalwitness.org/en>, 2021).

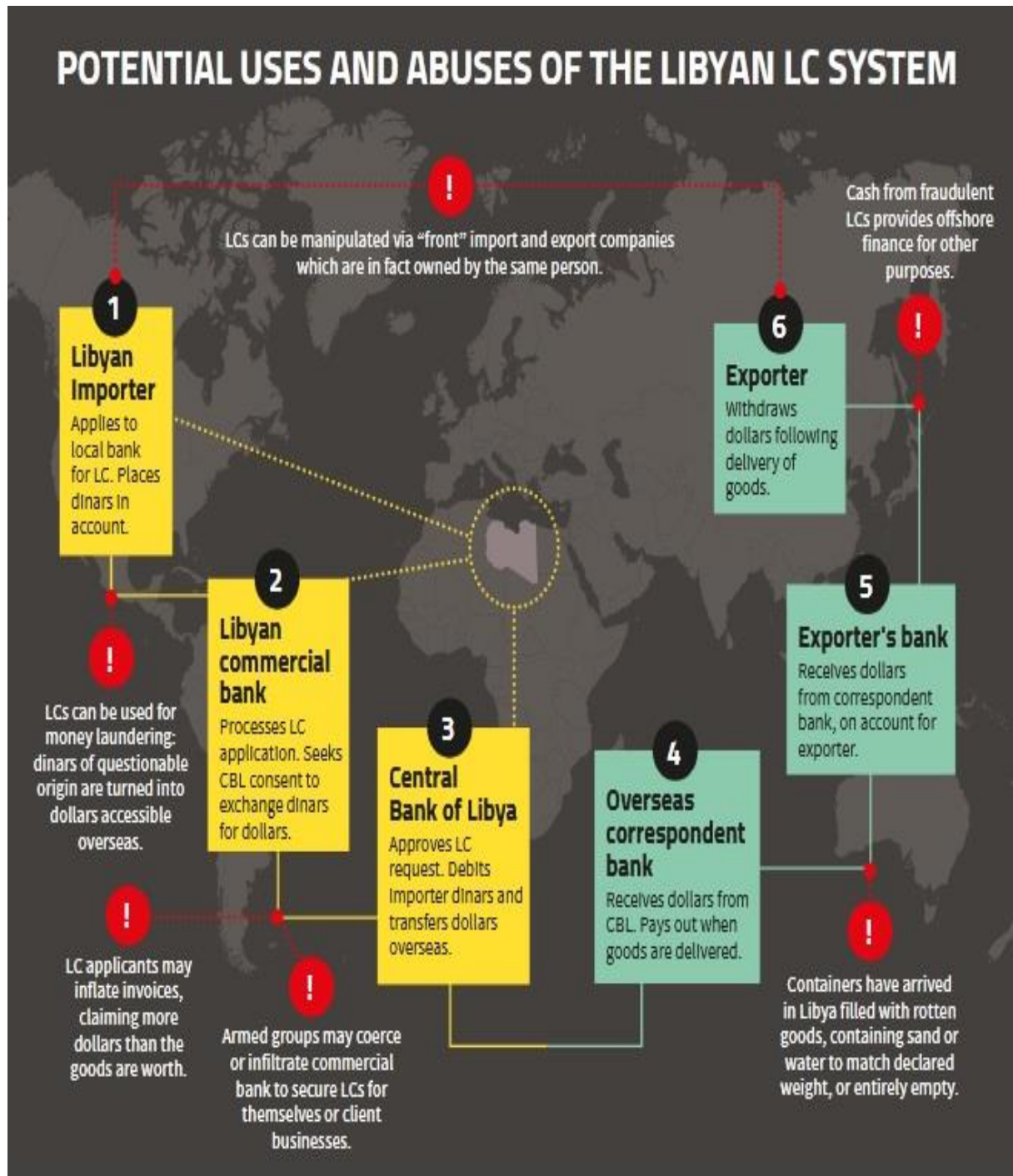


Figure (4.1): Shows the Potential Uses and Abuses of the Libyan LC System

(Source: <https://www.globalwitness.org/en>, 2021)

4.7.5 Recommendations from this case:-

1_Public authorities in Libya must put financial transparency at the center of peace dialogues, starting with the foreign exchange system such as letters of credit. This is

essential to help build confidence in public institutions at this pivotal moment for the country.

2_The increasing global role of central banks in the direct disbursement of funds should be accompanied by increased accountability and oversight over their management of public funds.

3_There is an urgent need for more stringent standards on due diligence and anti-money laundering in correspondent banks. This responsibility rests with the United Kingdom, the European Union, and other outlets in the international financial system (<https://www.globalwitness.org/en>, 2021).

4.8 Fraud and Cheat in Letters of Credit Transactions in Commercial Banks in other Countries:

4.8.1 Case (1): The Severity of Letter of Credit Fraud in Malaysia:

The first objective is to explore the severity of letters of credit fraud in Malaysia, by asking bank officers and LC experts how often they had come across cases of fraudulent letters of credit in their institutions. Based on the responses given by the respondents, the occurrence of fraud in the letter of credit transactions was generally perceived as mild and rather rare. One banker commented:

”In terms of percentage, we rarely come across fraud cases. The occurrence of letters of credit fraud is very, very low. I can confidently tell you that in banking the highest fraud cases will be in regards to credit card and the lowest involve letter of credit.”

However, an expert on LC remarked somewhat differently when asked about the issue:

”It is difficult to be specific, I probably can’t estimate. But I don’t see any reason why the situation in Malaysia should be any different from any other part of the world because fraudsters exist in every country. All commercial centers will have about the same proportion of crooks that you would have anywhere else. So, in Dubai, London, and Hong Kong, there will be larger numbers because the volume is higher but the proportion is the same. In Malaysia too, there has been some major fraud in the past.”

4.8.2 Types of Letter of Credit Fraud:-

- **Documentary Fraud** is reported to be on the rise during a financial and economic crisis where fraudsters may make use of LCs to obtain financing from the bank for non-existing cargo. It appears that fraud cases in the letter of credit operations are quite rampant in the current adverse economic conditions. In this regard, the risks faced by banks are inherently high especially once payment has been released. This is reflected in a statement by an expert in letters of credit: *“It can be a bit risky to the bank. For example, if the seller is a fraudster, he presents documents that are all forged to the bank. When the bank examines documents, the documents at the face look as if they comply, that everything is in order. The bank can’t say anything, they have to pay.”*

- **The respondents revealed that cheating in regards to insurance on goods** was also a problem in the letter of credit transactions. The most basic form of cargo insurance fraud was reported as over-insurance on goods (Conway, 1990).

The seller of the goods would insure the goods at an amount higher than their actual value, fabricate an occurrence of loss or spoilage, and then claim from the insurance company an amount higher than the actual value. This way, the seller would profit from the insurance proceeds.

- **The third type of cheat mentioned by respondents was container cheat**, This kind of cheat normally occurs when the seller ships fraudulent goods to the purchaser. Thus far, we can deduce that the letter of credit fraud climate in Malaysia is perceived to be mild. However, in cases that it does occur, documentary fraud is viewed to be the most common, followed by container and insurance cheat (CheHashim, Mahdzan, 2014).

4.8.3 Fraudulent documentation of Letters of Credit: modus operandi

Next, we deal with the second objective, which is to investigate the common modus operandi undertaken by fraudsters. According to responses from the bankers, among the types of scams in the letter of credit fraud cases were the presentation of forged documents (e.g. bills of lading, delivery order, and invoices); fraud conspired by the buyer and/or seller, and fraud perpetrated by a third party (e.g. the shipping agent). Other types of modus operandi that were used involved using letters of credit as an instrument for money laundering and internal fraud.

Bankers perceived that forgery of bills of lading was the most common modus operandi in the letter of credit fraud. A bill of lading is a document of title or

ownership to the goods and by nature is negotiable (Article 20, UCP 600). Fraudsters might forge the bill of lading and sell the cargo to someone else, or fabricate the authenticity of a non-existent cargo. In such cases, the bank would be misled into believing that the cargo exists, when it does not.

“The most notorious fraud is documentary fraud. It always involves bills of lading in international trade transactions. For example, a bill of lading is forged by a third party, normally the shipping company. whereas in domestic trade, fraud always occurs via delivery orders and invoices issued by suppliers, with intention of cheating the bank” (CheHashim, Mahdzan, 2014).

“Although a delivery order is not a document of title, it has served well in the Malaysian commerce system. It is very much similar to an invoice whereby it is issued by the beneficiary addressed to the applicant. Upon delivery, the applicant is required to acknowledge receipt of the cargo and the beneficiary will present the acknowledged delivery order bearing the original signature of the applicant to the bank for negotiation.” Being a widely used document in local trade, the inherent risks of delivery orders are high since they are issued by the beneficiary himself rather than a third party.

This creates an opportunity for malicious acts of fraudulent collaborations to occur. The collaboration to commit fraud is particularly untraceable if the trade transaction takes place between subsidiary companies or companies that share common directorship. Therefore, banks will take extra precautions when checking delivery orders as opposed to other documents since this document entails higher risk. In situations where delivery orders are used in transactions, confirmation of receipt from the applicant would enable the detection of potential fraud as it provides evidence of the delivery and receipt of goods.

Malaysian bankers generally admit that fraud is more easily committed in local Letters of Credit Transactions as opposed to international LCs.

“Fraud always occurs in local Letters of Credit as delivery orders are used and signed by the applicant. and he acknowledges that the goods are in order. On the other hand, international letters of Credit using bills of lading issued by a shipping company are more reliable as all the shipping companies must first be registered with International Maritime Bureau (IMB).”

4.8.4 Cheat Statistics in Letters of Credit:

Its requests for letter of credit cheat statistics were forwarded to the Central Bank of Malaysia, Malaysian Commercial Banks, Malaysian Royal Police, and other relevant governmental and non-governmental bodies but, notwithstanding the banker's secrecy or confidentiality, no statistics on the letter of credit cheat are specifically reported by these institutions. However, the statistic of cheat crimes is provided by the Royal Police of Malaysia which includes commercial cheating on ATM card, lucky draw and credit card scams, etc.

4.8.5 Results from the case (1):

it can be concluded that the Malaysian bankers interviewed fully adhered to the autonomous nature of the letter of credit as provided by the UCP. By strictly observing the provisions of the UCP, banks would refrain from getting involved in cases relating to fraud in the letter of credit transactions. As required by the UCP, documents are only examined at face value e as long as they comply with the requirements of the letter of credit, bankers would honor their duty in executing payment to the seller (i.e. the beneficiary) regardless of the actual existence or condition of the goods (CheHashim, Mahdzan, 2014).

4.8.6 Case (2): Algerian Foreign Bank:

The bank was established on **01/10/1967** by Ordinance **67/204**. It is the third and last commercial bank to be established following the decisions of the nationalization of the banking sector. The Algerian external bank is one of the most important commercial banks at the national level. It deals with major companies and most traders. All commercial transactions are carried out in this bank. The Bank's international business is both short and medium-term.

The documentary collection has been allocated to productive companies only, meaning that this technology is not available to anyone on the one hand.

On the other hand, there is another body, namely the Customs Authority, which helps the external bank in completing the importation process. This is reflected in the fact that this authority monitors the process in the field, in the ports, verifies the imported goods and invoices, and eventually ratifies them and submits them to the external bank to complete the payment process. The documents are 100% intact under normal circumstances.

If there is confusion, they take the necessary action from investigations and communications to find out where the cheat lies in the process(Boularas, 2011-2012).

4.8.7 Failure of Cheat During Import By Opening a Letter of Credit:

Our study on the use of cheat during the importation of one of the Algerian importers highlights a kind of commercial cheat many and complex to focus on in this study, which is to raise the value of the invoice for the smuggling of capital.

1.The import process:In 2009, an import operation was held by the Algerian importer (National Import and Export Company) and the Chinese foreign exporter by opening a letter of credit.

2.The objective of this contract is to provide the Algerian exporter with the following:-

2613 PNEUS –237 PNEUS {165 / 70R13}.

700 PNEUS LEGER {185 / 70R14}.

The process was done by opening a letter of credit in normal circumstances like any other importation. The type of sale applied in this process and authorized in the invoice is **CFR**. After the control of goods by the customs, the invoice was settled in the Algerian external bank **BEK** so that the goods would then be Algerian and ready for distribution locally (Boularas, 2011-2012).

3. Election of cheat applied in this process:

On **24/09/2010**, the field inspection of the aforementioned Algerian company was carried out within the framework of the investigation carried out by the mixed control team (taxes, customs, trade).

During the process of investigation and examination of import operations, especially the detailed declaration **code1000 No. 001226 dated 14/03/2009** at the office of Skikda Dry Port, and the purchase invoice **No. L5631 /DS / SL / EXG dated 12/01/2009**, which is under the number **28/03/01/2009 /1/10/00076/ USD in BEA**

The customs officers had doubts about the value of the transport expenses. They contacted the shipping agent (**CMA-CGM**) to inquire about the value of the transport expenses. The reply of the shipping agent according to the shipping statement **No. QDZH014410** dated **19/01/2009** and the statement of transport expenses attached to the minutes shows that the value of The authorized transportation expenses are wrong and are shown as follows:

The authorized transportation expenses are the **US \$ 8,200**

The real transportation expenses are **\$ 3,540**

The difference between them is **US \$ 4,660** and this difference has been transferred

to the importer's account through the false declaration in the value of transportation expenses, which is a violation of the legislation and regulation on the exchange and movement of capital from abroad.

4. Type of financial penalties:

Financial sanctions were as follows:-

First: a fine can't be less than four times the value of the violation or attempted violation.

Second: The confiscation of the place of a misdemeanor or a financial penalty acts as confiscation and is equal to the value of the violation.

In other words, the fine is estimated to be:

Value of the violation: $4660 \text{ USD } \$ \times 71,93260 = 335.205.91$ Algerian dinars

The fine is therefore estimated at:

$335,206.00 \text{ DZ } \times 4 = 1,676,030.00 \text{ DZD}$ is the place of confiscation
The total fine is therefore at least **1,676,030.00 Algerian dinars.**

Consequently, the person concerned was informed that he has a month from the date of inspection to request reconciliation under **Article 9** repeated of Order **96/22**, as amended by **Article 13** of Order **03/01** of **19/02/2003**, entitled Conciliation Commission. This record copies of the following documents:

- Customs declaration number: **001226 date: 14/03/2009**
- A copy of the (CMA-CGM) consignment dated **10/07/2011**

The concerned person was also notified by subpoena **No. 268 dated:**

04/09/2011 that this report will be issued at the headquarters of the General Directorate of Customs in BordjBouArreridj on **12/09/2011** at **10 am** and ordered to be at the place and date set to attend the process of editing this record for inclusion He was told that he had the freedom to take a lawyer of his choosing.

4.8.8 Results from the case (2):

Through our study of the Algerian External Bank in M'sila and the Customs Directorate, we have reached the following conclusions:

1-The Customs Authority shall be considered as the importer of the import process. Its duties shall be to monitor the ports, inspect the goods and investigate the importation process if there is any doubt about the latter through making several contacts with the transport company or even with the exporter itself.

2-Bank settlement is one of the necessary measures imposed by Algerian commercial

banks on all dealers in the field of foreign trade.

3-One of the most used methods of cheating among economic dealers in the letters of credits in the Algerian external bank is to inflate the transportation expenses to smuggle capital abroad.(Boularas, 2011-2012).



Chapter 5: Field Study

5.1 Introduction:

To identify the role of Libyan commercial banks in reducing fraud and cheat in letters of credit transactions, in this chapter, the research hypothesis was tested to verify the extent of acceptance or rejection of the following hypothesis:

(H₀: Libyan commercial banks have no role in reducing fraud and cheat in Letters of Credit transactions)

Given the importance of the research, this chapter was devoted to clarifying the methodological steps that were followed to conduct the field study. The data collected through the questionnaire sheet were analyzed and processed, using appropriate statistical methods and testing the research hypothesis to arrive at the results and recommendations.

5.2 The general framework of the methodology used in the field study:

To clarify the importance of the field study, the general framework of the methodology used in the study will be presented, which includes the research community and sample, identification of research tools, and also the statistical methods that will be followed by analyzing the data.

Firstly: Research community and sample and identification of research tools:-

1-Research Community:

The research community consists of the main Libyan commercial banks and their branches operating in the central and western regions of Libya only, and this is what the researcher was able to distribute only from the investments of the Questionnaire sheet in these two regions, and the inability to distribute to the rest of the regions and cities of the country due to the war conditions in all regions of eastern and southern Libya, and also due to the circumstances of the spread of the Corona pandemic in the country.

2-Research sample:

A sample was taken from the research community from the main Libyan commercial banks and their branches operating in the central and western regions of Libya, and these banks are:-

- 1-JumhouriaBank.**
- 2-Sahara Bank.**
- 3-Al Wahda Bank.**
- 4-The National Commercial Bank.**
- 5-Alejmaa Alarabi Bank.**
- 6-Aman Bank.**
- 7-North Africa Bank.**
- 8-Mediterranean Bank.**
- 9-Alwaha Bank.**
- 10-Nuran Bank.**
- 11-The Libyan Islamic Bank.**

The questionnaire sheet was directed to the letters of the credit department in the main Libyan commercial banks and their branches in the aforementioned western and central regions.

3-Research Tools:

The research relied on collecting data on a tool (questionnaire sheet), where a questionnaire was designed with a **Fifth Likert Scale** to contain five answers: **Strongly Agree, Agree, Neutral, Disagree, Strongly Disagree**, as follows:

Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
Degree	1	2	3	4	5

Table (5.1)

Assessment Level (Degree of Measurement)

The questionnaire sheet was distributed to the research sample, where **(200) questionnaire sheets** were distributed, and the response rate of the research sample to the questionnaire sheet was as follows:

Number of questionnaire sheets distributed	Number of questionnaire sheets received	Analyzable	Percentage
200	200	200	100%

Table (5.2)

The percentage of response of the research sample to the Questionnaire Sheet

Secondly: Statistical methods used in analyzing the questionnaire sheet data:

The quantitative statistics method (Number and Percentages) was used to extract percentages of data related to the general aspects of the participants using the (SPSS) program through the **Wilcoxon Test** statistical method.

*** The rule for deciding to accept or reject the research hypotheses:**

5.3 Data analysis and hypothesis testing:

The data collected by the questionnaire sheet related to Libyan commercial banks and their role in reducing fraud and cheat in letters of credit transactions were analyzed using the aforementioned statistical method as follows:-

Firstly: Analysis of the first part of the questionnaire sheet (general information about the participants):

Sex		
	Frequency	Percent
Male	168	84
Female	32	16
Total	200	100

Table (5.3): It is clear from the above table that the number of male participants was 168 (i.e. 84%), while the number of female participants was 32 (i.e. 16%).

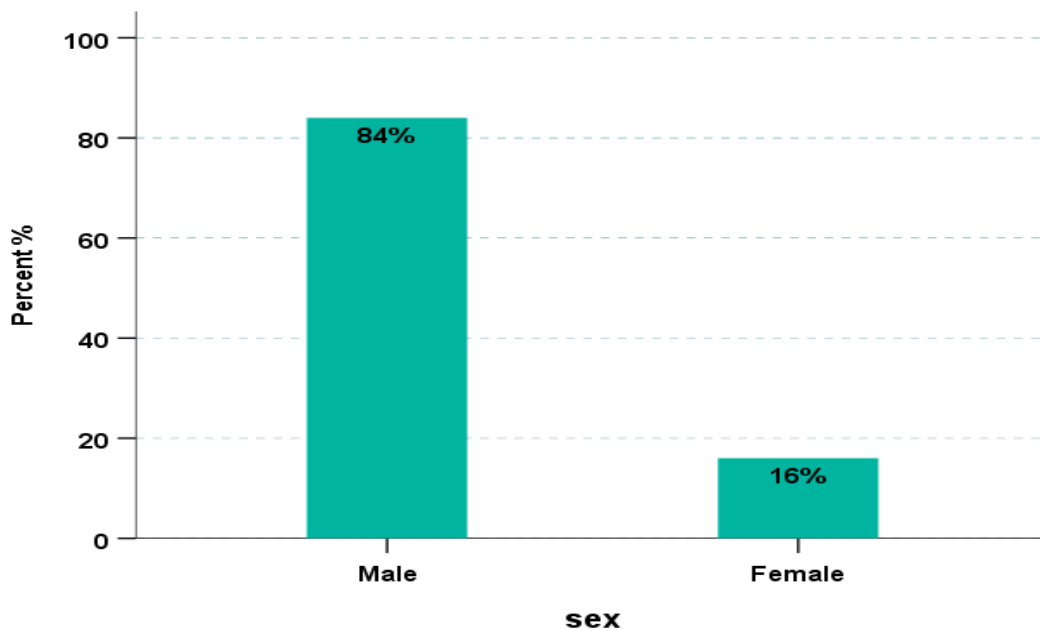


Figure (5.1): Shows the percentage of participants divided by gender

Age

	Frequency	Percent
Less than 25 years	16	8
From 25 to less than 35 years	107	53.5
From 35 to less than 45 years	67	33.5
From 45 to less than 55 years	5	2.5
From 55 years and over	5	2.5
Total	200	100

Table (5.4): Shows that 107 (i.e. 53.5%) of participants were of the age ranged between 25 and 35, and 67 (i.e. 33.5%) of participants were between 35 and 45

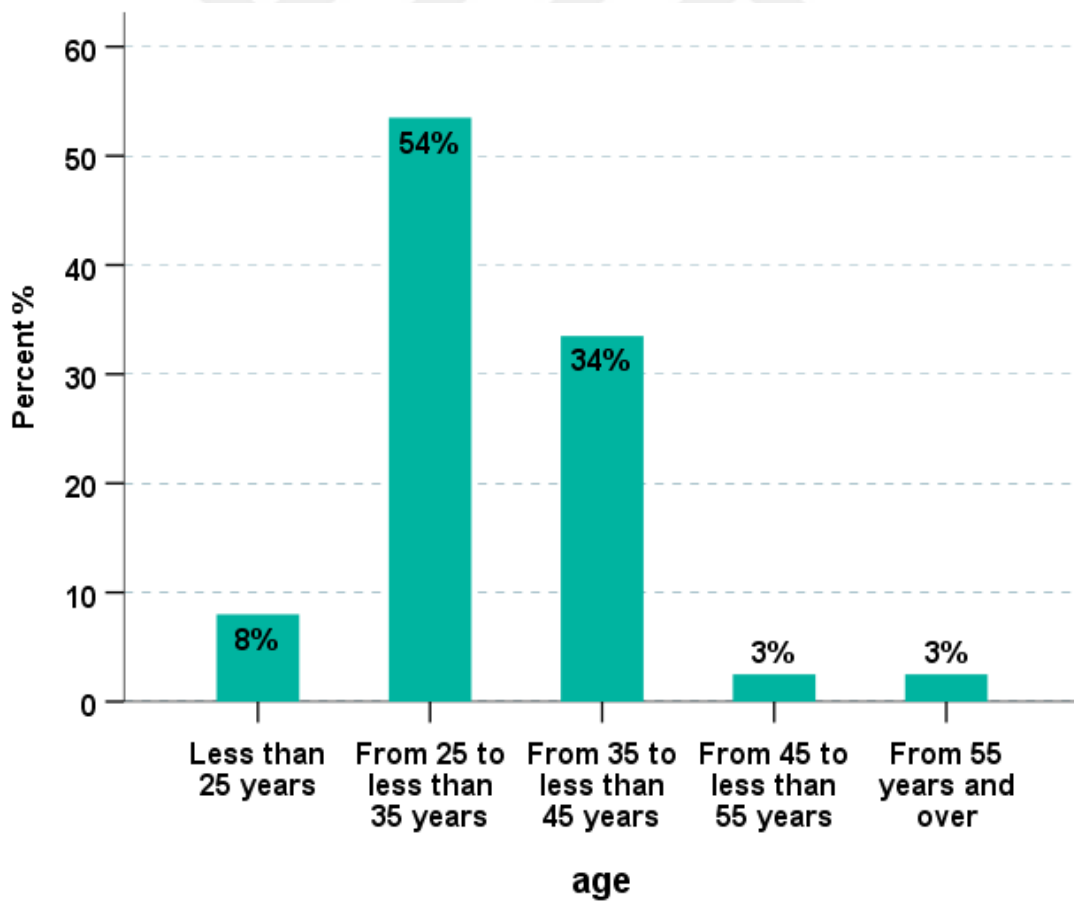


Figure (5.2): Shows the percentage of participants divided by age group

Education Level

	Frequency	Percent
Diploma	3	1.5
Higher Diploma	26	13
Bachelor	150	75
Master	1	0.5
Doctorate	10	5
Other than that	10	5
Total	200	100

Table (5.5): Shows the education level of participants where 150 (i.e.75%) of them have a Bachelor's degree, and 26 (i.e.13%) of participants have a Higher Diploma

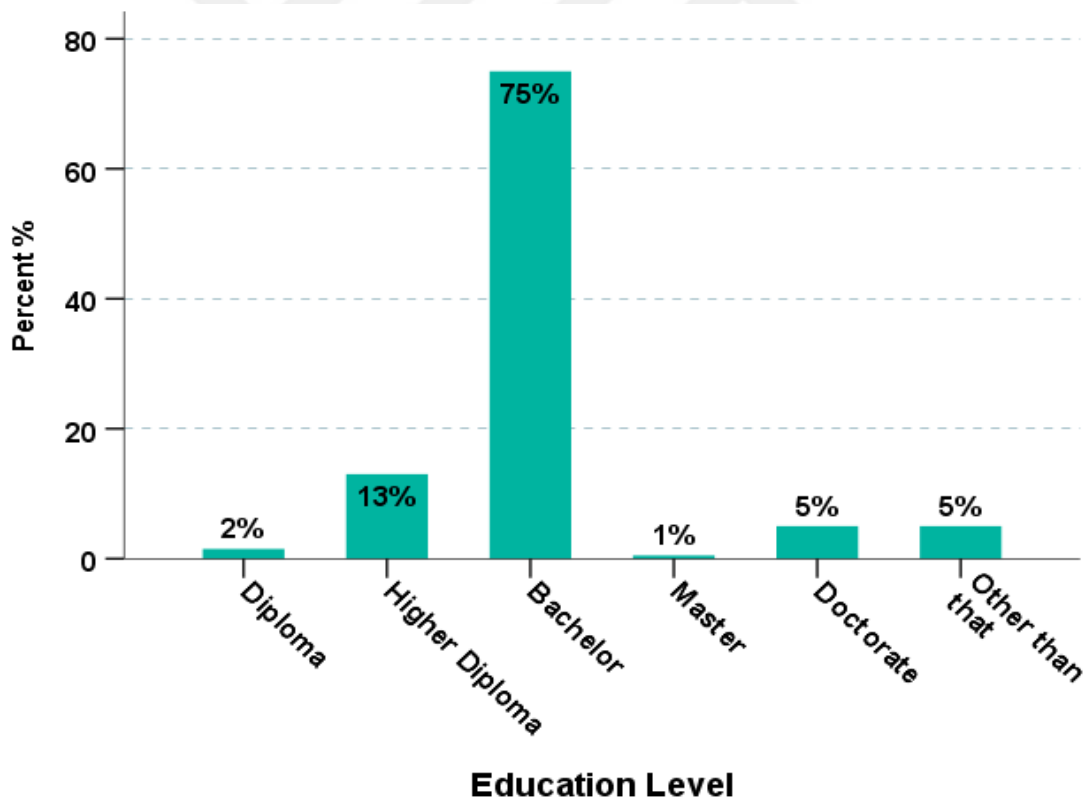


Figure (5.3): Display the percentage of participants divided by education level

Specialization

	Frequency	Percent
Accounting	58	29
Economy	10	5
Financing and banking	21	10.5
Business Management	49	24.5
Other than that	62	31
Total	200	100

Table (5.6): Displays the participant's specialization, where 58 (i.e. 29%) of them are specialized in Accounting, 49 (24.5%) specialized in Business Management, and 21 (i.e. 10.5%) specialized in Financing and banking

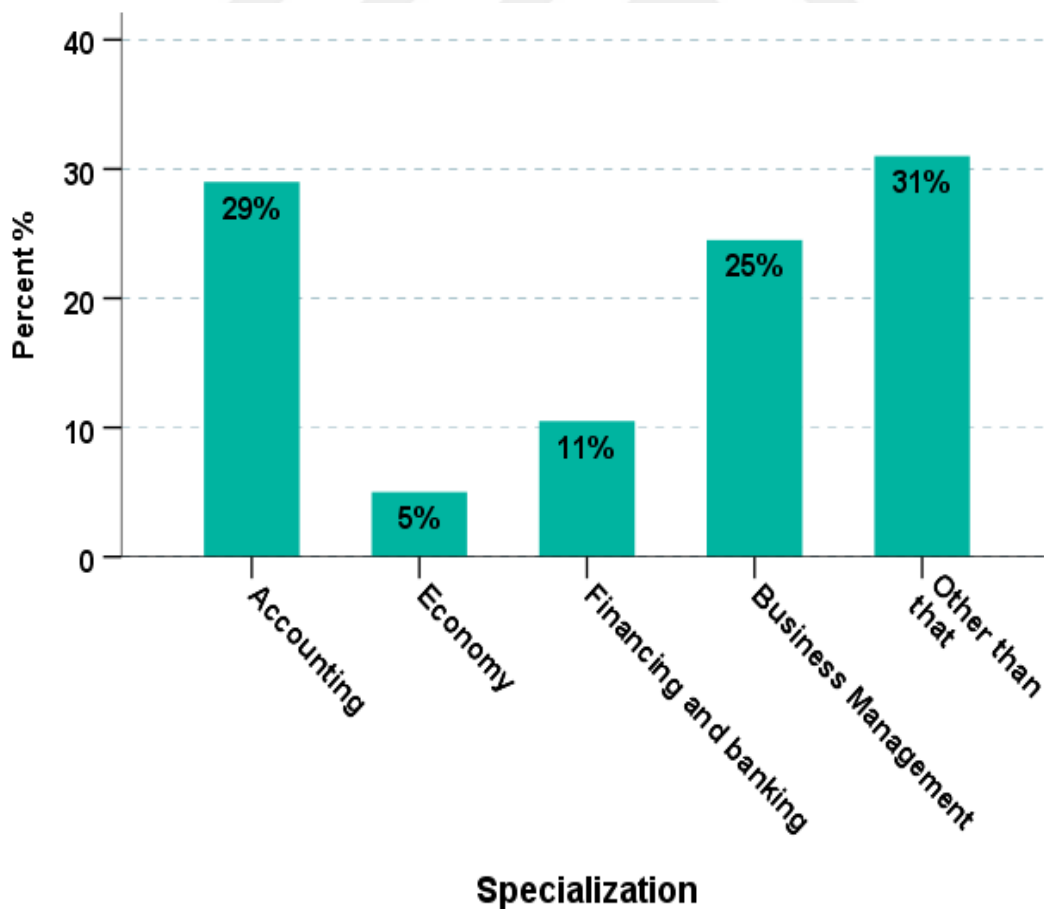


Figure (5.4): Shows the percentage of participants divided by specialization

Job Position

	Frequency	Percent
Director of the Department	23	11.5
Head of documentary credits section	30	15
Documentary Credits Officer	142	71
Other than that	5	2.5
Total	200	100

Table (5.7): It is clear from the above table that 142 (i.e. 71%) of participants have job positions in Documentary Credits Officer, and 30 (i.e. 15%) of participants have job positions as a Head of documentary credits section

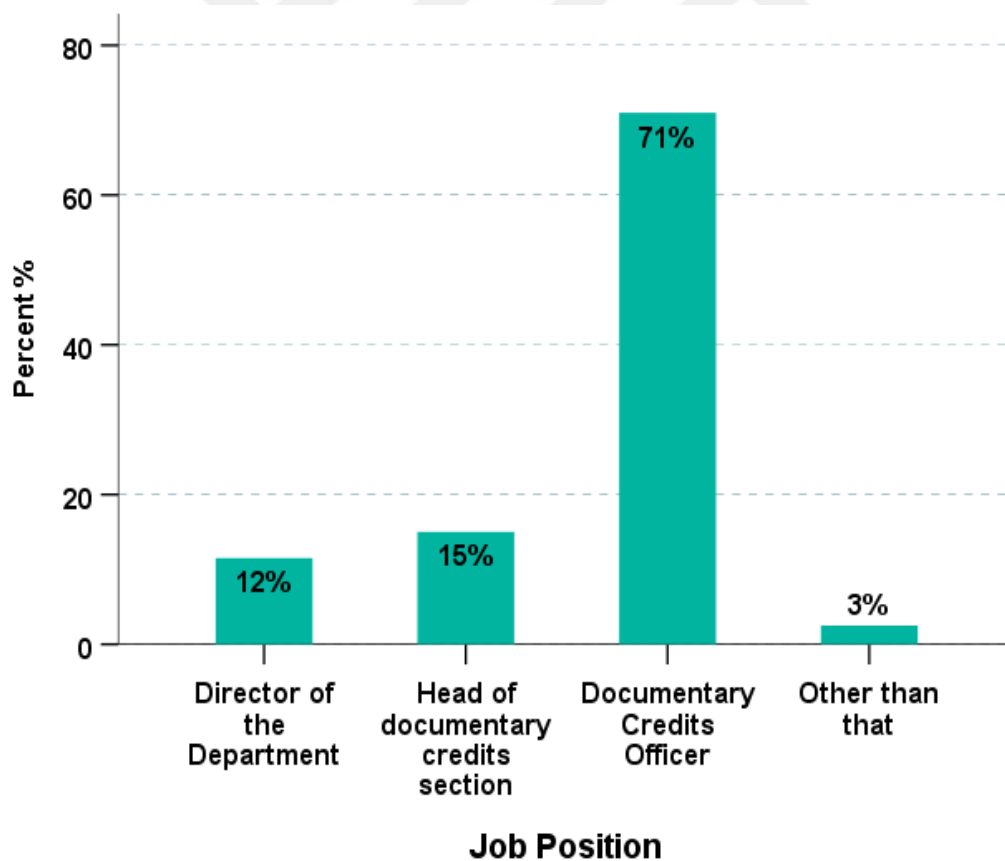


Figure (5.5): Shows the percentage of participants divided by job position

Experience Years

	Frequency	Percent
Less than 5 years	102	51
From 5 to less than 10 years	43	21.5
From 10 to less than 15 years	21	10.5
From 15 to less than 20 years	15	7.5
From 20 years and over	19	9.5
Total	200	100

Table (5.8): Shows the experience years of participants where 102 (i.e. 51%) have less than 5 years of experience, 43 (i.e. 21.5%) have between 5 and 10 years, and 21 (i.e. 10.5%) have between 10 and 15 years of experience

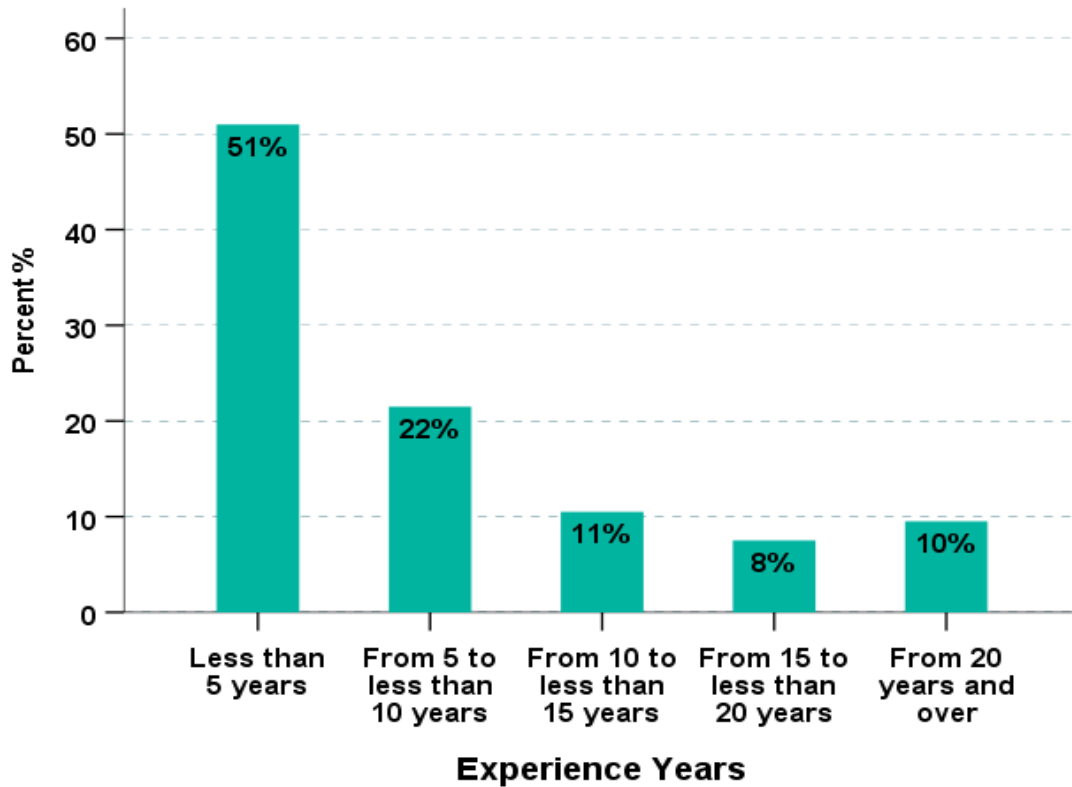


Figure (5.6): Shows the percentage of participants divided by experience years

Training courses during which you participated during your work in the bank

	Frequency	Percent
Letters of Credit	38	19
Computer and Its Applications	6	3
Swift System	5	2.5
Terms of Delivery, Incoterms 2010	1	0.5
International uniform customs and practice for LC (UCB 600)	1	0.5
Other than that	49	24.5
Documentary Credits & Swift System	61	30.5
More than two choices	39	19.5
Total	200	100

Table (5.9): Shows the 61 (i.e. 30.5%) of participants had a training course in Documentary Credits and Swift System, 38 (i.e. 19%) had letters of credit only and 5 (i.e. 2.5%) had Swift System course only

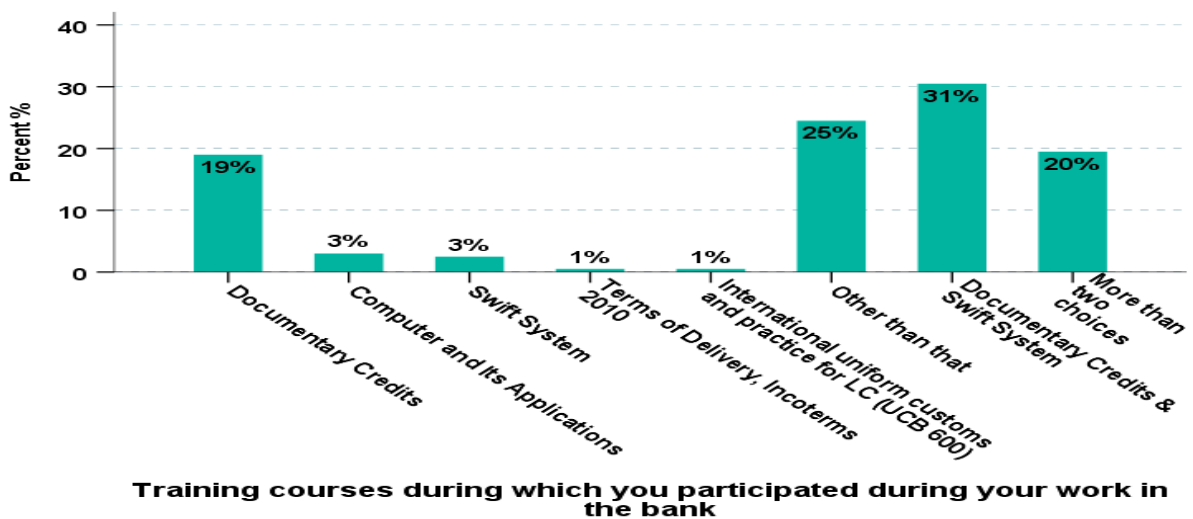


Figure (5.7): Shows the percentage of participants divided by training courses in which they participated

Secondly: Analysis of the second part of the questionnaire sheet:

(Information related to Libyan commercial banks and their role in reducing fraud and cheat in letters of credit transactions).

In this part, the researcher analyzes the answers to the questionnaire sheet that he obtained from the participation as follows:

5.4 Data analysis and hypothesis selection:

The data collected by the Questionnaire newspaper related to the role of Libyan commercial banks in reducing fraud and cheat in letters of credit transactions were analyzed through the **Wilcoxon test**, and the analysis was performed through the statistical program (**SPSS**), and the results of the statistical analysis were as shown in Table No. (35):-

1-Cronbach's Alpha Test :

Cronbach's Alpha was developed in 1951 by Cronbach Lee to meet the need of finding an objective way of measuring the internal consistency reliability of an instrument used in research work. The value of Cronbach's Alpha is usually expressed as a number between 0 and 1. A value of 0 means no consistency in measurement while a value of 1 indicates perfect consistency in measurement. The acceptable range is between 0.6 and 0.90 or higher depending on the type of research. Cronbach's Alpha value 0.6 and above indicates that all the variable indices dimensions demonstrate acceptable internal consistency.

<i>Item</i>	<i>Cronbach's Alpha</i>	<i>Number of items</i>
<i>Whole Questionnaire</i>	0.916	51
<i>First</i>	0.721	9
<i>Second</i>	0.624	9
<i>Third</i>	0.854	9
<i>Fourth</i>	0.771	13
<i>Fifth</i>	0.898	11

Table (5.10): Cronbach's alpha was calculated within each of the five groupings where it shows that all the values were greater than 60%, the Cronbach's alpha for the whole questionnaire was 91.6% which is very high and indicates a great internal consistency

2-Internal consistency validity:

Internal consistency validity means the extent to which each of the items of the questionnaire is consistent with the field to which this item belongs, and the validity of internal consistency was verified by finding the linear correlation coefficient of Pearson between each of the items of the questionnaire and the total degree of the field to which this element belongs.

The results were positive, as the different correlation coefficients indicated that there is an internal consistency for the elements of the questionnaire with the fields to which they belong. Below are the different correlation coefficients for each item with its domain

	<i>R</i>	<i>P-value</i>
<i>Ques. 1</i>	0.68	0.000
<i>Ques. 2</i>	0.70	0.000
<i>Ques. 3</i>	0.40	0.000
<i>Ques. 4</i>	0.68	0.000
<i>Ques. 5</i>	0.78	0.000
<i>Ques. 6</i>	0.16	0.025
<i>Ques. 7</i>	0.49	0.000
<i>Ques. 8</i>	0.59	0.000
<i>Ques. 9</i>	0.58	0.000

Table (5.11): It is noticed from the previous table that all Pearson correlation coefficients between each item of the first field, which amount to 9 items, and the total score of the field are statistically significant at the level of statistical significance (0.05). This indicates the great internal consistency of the elements of the first domain

	<i>R</i>	<i>P-value</i>
<i>Ques. 1</i>	0.36	0.000
<i>Ques. 2</i>	0.50	0.000
<i>Ques. 3</i>	0.42	0.000
<i>Ques. 4</i>	0.35	0.000
<i>Ques. 5</i>	0.74	0.000
<i>Ques. 6</i>	0.55	0.000
<i>Ques. 7</i>	0.43	0.000
<i>Ques. 8</i>	0.63	0.000
<i>Ques. 9</i>	0.56	0.000

Table (5.12): It is clear from the previous table that all Pearson correlation coefficients between each item of the first field, which amount to 9 items, and the total score of the field are statistically significant at the level of statistical significance (0.05). This indicates the great internal consistency of the elements of the second domain

	<i>R</i>	<i>P-value</i>
<i>Ques. 1</i>	0.67	0.000
<i>Ques. 2</i>	0.64	0.000
<i>Ques. 3</i>	0.73	0.000
<i>Ques. 4</i>	0.69	0.000
<i>Ques. 5</i>	0.78	0.000
<i>Ques. 6</i>	0.69	0.000
<i>Ques. 7</i>	0.66	0.000
<i>Ques. 8</i>	0.68	0.000
<i>Ques. 9</i>	0.58	0.000

Table (5.13): It is noticed from the previous table that all Pearson correlation coefficients between each item of the first field, which amount to 9 items, and the total score of the field are statistically significant at the level of statistical significance (0.05). This indicates the great internal consistency of the elements of the third domain

	<i>R</i>	<i>P-value</i>
<i>Ques. 1</i>	0.58	0.000
<i>Ques. 2</i>	0.53	0.000
<i>Ques. 3</i>	0.54	0.000
<i>Ques. 4</i>	0.59	0.000
<i>Ques. 5</i>	0.40	0.000
<i>Ques. 6</i>	0.55	0.000
<i>Ques. 7</i>	0.59	0.000
<i>Ques. 8</i>	0.47	0.000
<i>Ques. 9</i>	0.68	0.000
<i>Ques. 10</i>	0.44	0.000
<i>Ques. 11</i>	0.24	0.001
<i>Ques. 12</i>	0.57	0.000
<i>Ques. 13</i>	0.60	0.000

Table (5.14): It is noticed from the previous table that all Pearson correlation coefficients between each item of the first field, which amount to 13 items, and the total score of the field are statistically significant at the level of statistical significance (0.05). This indicates the great internal consistency of the elements of the fourth

	<i>R</i>	<i>P-value</i>
<i>Ques. 1</i>	0.40	0.000
<i>Ques. 2</i>	0.32	0.000
<i>Ques. 3</i>	0.67	0.000
<i>Ques. 4</i>	0.70	0.000
<i>Ques. 5</i>	0.81	0.000
<i>Ques. 6</i>	0.72	0.000
<i>Ques. 7</i>	0.79	0.000
<i>Ques. 8</i>	0.75	0.000
<i>Ques. 9</i>	0.86	0.000
<i>Ques. 10</i>	0.81	0.000
<i>Ques. 11</i>	0.82	0.000

Table (5.15): It is noticed from the previous table that all Pearson correlation coefficients between each item of the first field, which amount to 11 items, and the total score of the field are statistically significant at the level of statistical significance (0.05). This indicates the great internal consistency of the elements of the fifth domain

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation	P-value	Rank
Ques. 1	1 0.50%	47 23.50%	7 3.50%	86 43%	59 29.50%	2.22	1.13	0.000	9
Ques. 2	10 5%	31 15.50%	64 32%	80 40%	15 7.50%	2.7	0.99	0.000	5
Ques. 3	1 0.50%	69 34.50%	50 25%	69 34.50%	11 5.50%	2.9	0.96	0.132	4
Ques. 4	6 3%	11 5.50%	74 37%	94 47%	15 7.50%	2.5	0.83	0.000	8
Ques. 5	8 4%	41 20.50%	28 14%	95 47.50%	28 14%	2.53	1.09	0.000	7
Ques. 6	36 18%	64 32%	56 28%	34 17%	10 5%	3.41	1.12	0.000	1
Ques. 7	15 7.50%	61 30.50%	64 32%	55 27.50%	5 2.50%	3.13	0.98	0.056	3
Ques. 8	14 7%	70 35%	60 30%	50 25%	6 3%	3.18	0.99	0.011	2
Ques. 9	4 2%	51 25.50%	36 18%	90 45%	19 9.50%	2.65	1.03	0.000	6

Table (5.16): This shows the participant's answers regarding *"Information regarding the extent of Libyan commercial banks commitment to the procedures and conditions for opening letters of credit by the Central Bank of Libya"*.

we can see that the answers of participants tend to disagree on questions 1, 2, 4, 5, and 9, where the averages of the questions were less than 3 and the p-values (for $H_0: \mu = 3$) less than 5%. Questions 3 and 7 were neutral since the p-values greater than 5%, whereas in questions 6 and 8 the participant's answers were heading towards agreeing, as the averages of the questions were greater than 3 and the p-values less than 5%.

Also, the most question that the participants agree on is question number 6, and the last question that they agree on is question number 1.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation	P-value	Rank
Ques. 1	44 22%	116 58%	25 12.50%	15 7.50%	0 0%	3.94	0.8	0.000	1
Ques. 2	26 13%	79 39.50%	40 20%	50 25%	5 2.50%	3.36	1.07	0.000	3
Ques. 3	25 12.50%	53 26.50%	76 38%	46 23%	0 0%	3.29	0.96	0.000	4
Ques. 4	37 18.50%	112 56%	36 18%	15 7.50%	0 0%	3.86	0.8	0.000	2
Ques. 5	5 2.50%	36 18%	72 36%	62 31%	25 12.50%	2.67	0.99	0.000	9
Ques. 6	11 5.50%	57 28.50%	61 30.50%	51 25.50%	20 10%	2.94	1.08	0.378	8
Ques. 7	20 10%	37 18.50%	88 44%	55 27.50%	0 0%	3.11	0.92	0.058	6
Ques. 8	5 2.50%	45 22.50%	113 56.50%	37 18.50%	0 0%	3.09	0.71	0.073	7
Ques. 9	5 2.50%	51 25.50%	122 61%	22 11%	0 0%	3.19	0.66	0.000	5

Table (5.17): Shows the participant's answers belonging to the *axis "Information on the accuracy and commitment of the Libyan importer and its procedures for opening the letters of credit and its connection with the Customs Authority"*.

It can be noted that participants agree on questions 1, 2, 3, 4, and 9 since the averages of the questions were greater than 3 and the p-values were less than 5%. Questions 6, 7, and 8 were neutral (p-values greater than 5%), and only question 5 that the participant disagree on, where the average was less than 3 and the p-value less than 5%. Furthermore, the highest question that the participants agree on was question number 1, and the last one was question number 5.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation	P-value	Rank
Ques. 1	5 2.50%	35 17.50%	47 23.50%	98 49%	15 7.50%	2.58	0.95	0.000	2
Ques. 2	0 0%	45 22.50%	55 27.50%	80 40%	20 10%	2.62	0.94	0.000	1
Ques. 3	0 0%	49 24.50%	30 15%	101 50.50%	20 10%	2.54	0.97	0.000	4
Ques. 4	5 2.50%	31 15.50%	15 7.50%	129 64.50%	20 10%	2.36	0.95	0.000	6
Ques. 5	0 0%	36 18%	20 10%	119 59.50%	25 12.50%	2.34	0.91	0.000	7
Ques. 6	0 0%	22 11%	55 27.50%	83 41.50%	40 20%	2.3	0.91	0.000	8
Ques. 7	0 0%	10 5%	59 29.50%	96 48%	35 17.50%	2.22	0.79	0.000	9
Ques. 8	1 0.50%	33 16.50%	44 22%	102 51%	20 10%	2.46	0.9	0.000	5
Ques. 9	0 0%	38 19%	61 30.50%	81 40.50%	20 10%	2.58	0.91	0.000	2

Table (5.18): This shows the participant's answers regarding *"Information on the extent of the Libyan commercial bank's commitment to examining the shipping documents of letters of credit and the risks of fraud, cheat and manipulation in their field"*. All the questions have averaged less than 3 and p-values less than 5%, which means all the participant's answers have disagreed on the questions. Also, the most question participants disagree on is question number 7, and the least question they disagree on is question number 2.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation	P-value	Rank
Ques. 1	5 2.50%	16 8%	56 28%	113 56.50%	10 5%	2.46	0.81	0.000	9
Ques. 2	9 4.50%	15 7.50%	17 8.50%	79 39.50%	80 40%	1.97	1.09	0.000	13
Ques. 3	5 2.50%	59 29.50%	77 38.50%	44 22%	15 7.50%	2.98	0.96	0.629	2
Ques. 4	10 5%	30 15%	84 42%	56 28%	20 10%	2.77	0.99	0.002	4
Ques. 5	5 2.50%	18 9%	82 41%	75 37.50%	20 10%	2.56	0.88	0.000	6
Ques. 6	10 5%	15 7.50%	65 32.50%	87 43.50%	23 11.50%	2.51	0.97	0.000	7
Ques. 7	15 7.50%	16 8%	46 23%	99 49.50%	24 12%	2.5	1.05	0.000	8
Ques. 8	15 7.50%	15 7.50%	25 12.50%	106 53%	39 19.50%	2.31	1.1	0.000	12
Ques. 9	0 0%	37 18.50%	94 47%	60 30%	9 4.50%	2.8	0.79	0.000	3
Ques. 10	0 0%	41 20.50%	40 20%	84 42%	35 17.50%	2.44	1.01	0.000	10
Ques. 11	5 2.50%	71 35.50%	83 41.50%	41 20.50%	0 0%	3.2	0.79	0.000	1
Ques. 12	5 2.50%	45 22.50%	15 7.50%	101 50.50%	34 17%	2.43	1.09	0.000	11
Ques. 13	0 0%	30 15%	73 36.50%	87 43.50%	10 5%	2.62	0.8	0.000	5

Table (5.19): This shows the participant's answers regarding *"Information on the extent of Libyan commercial banks commitment to the general controls for opening letters of credit by the Central Bank of Libya"*. The participants agree on question 11

(average were greater than 3, and p-value less than 5%), and were neutral on question 3 (p-value greater than 5%). Whereas, participants disagree on the rest of the questions. Furthermore, the most question that participants agree on is question number 11, and the most question that disagrees on is number 2.

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation	P-value	Rank
Ques. 1	5 2.50%	66 33%	63 31.50%	61 30.50%	5 2.50%	3.02	0.92	0.702	4
Ques. 2	1 0.50%	97 48.50%	60 30%	42 21%	0 0%	3.29	0.8	0.000	1
Ques. 3	5 2.50%	56 28%	84 42%	50 25%	5 2.50%	3.03	0.86	0.625	3
Ques. 4	5 2.50%	99 49.50%	16 8%	65 32.50%	15 7.50%	3.07	1.11	0.420	2
Ques. 5	15 7.50%	40 20%	65 32.50%	60 30%	20 10%	2.85	1.09	0.063	10
Ques. 6	15 7.50%	55 27.50%	65 32.50%	50 25%	15 7.50%	3.02	1.06	0.757	4
Ques. 7	10 5%	46 23%	49 24.50%	85 42.50%	10 5%	2.81	1.01	0.009	11
Ques. 8	11 5.50%	59 29.50%	40 20%	75 37.50%	15 7.50%	2.88	1.09	0.124	8
Ques. 9	10 5%	46 23%	73 36.50%	56 28%	15 7.50%	2.9	1	0.160	7
Ques. 10	18 9%	46 23%	53 26.50%	58 29%	25 12.50%	2.87	1.17	0.125	9
Ques. 11	8 4%	72 36%	37 18.50%	72 36%	11 5.50%	2.97	1.05	0.675	6

Table (5.20): This shows the participant's answers regarding *"The existence of many differences from the external correspondent indicates the lack of credibility in the*

procedures, the most important of which is the following". We can see that participants agree on question 2 (average greater than 3, and p-value less than 5%), and disagree on question 7 (average less than 3, and p-value less than 5%). Whereas the participant's answers for the rest of the questions were neutral (p-values greater than 5%).

Besides, the most question that participants agree on was question number 2, and the last question was number 7.

Before we test the hypotheses, we check whether the data for each domain follow the normal distribution. If the data does follow the normal distribution, we use a one-sample t-test for testing the hypotheses; otherwise, we use the nonparametric **one-sample Wilcoxon test**.

	KOLMOGROV-		
FIELD	SMIRNOV	P-VALUE	DECISION
	STATISTIC		
FIELD 1	0.101	0.000	Non-normal
FIELD 2	0.100	0.000	Non-normal
FIELD 3	0.120	0.000	Non-normal
FIELD 4	0.149	0.000	Non-normal
FIELD 5	0.125	0.000	Non-normal
TOTAL	0.062	0.061	Normal

Table (5.21): Shows the Kolmogorov-Smirnov test to check the normality of the data

We have used the Kolmogorov-Smirnov test to check the normality of the data, and we found that all the data does not follow the normal distribution except mean values of all the fields, it follows the normal distribution.

	QUESTION	MEAN	STANDARD DEVIATION	TEST STATISTIC	P-VALUE
1	Information regarding the extent of Libyan commercial banks commitment to the Procedures and Conditions for opening letters of credit by the Central Bank of Libya	2.80	0.56	5523.5	0.000
2	Information Regarding the Libyan importer and its procedures to open letter of credit and its association with the Customs Authority	3.27	0.44	11972.5	0.000
3	Information on the extent of the Libyan Commercial Banks commitment to Examining the Shipping Documents of Letters of Credit and the risks of fraud, cheat and manipulation in their field	2.44	0.62	1973.5	0.000
4	Information on the extent of Libyan Commercial Banks commitment to the general controls for opening Letters of Credit by the Central Bank of Libya	2.57	0.49	1703.5	0.000
5	The existence of many differences from the external correspondent indicates the lack of credibility in the procedures, the most important of which are the following	2.97	0.71	9140.5	0.599
6	Libyan commercial banks have no role in reducing fraud and cheat in letters of credit transactions.	2.80	0.42	-6.59	0.000

Table (5.22): Shows the results of the statistical analysis of questionnaire sheet questions

- The overall average for questions regarding *"Information regarding the extent of Libyan commercial banks commitment to the procedures and conditions for opening letters of credit by the Central Bank of Libya "* was 2.8 with a standard deviation equals 0.56, and since the Wilcoxon test statistic equals 5523.5 with a p-

value equal 0.000 which is less than 5%, we conclude that the population under study, in general, tends to disagree on the questions.

- The overall average for questions regarding *"Information Regarding the Libyan importer and its procedures to open letter of credit and its association with the Customs Authority"* was 3.27 with standard deviation equals to 0.44, and since the Wilcoxon test statistic equals 11972.5 with a p-value equal 0.000 which less than 5%, we conclude that the population under study, in general, tends to agree on the questions.
- The overall average for questions regarding *"Information on the extent of the Libyan Commercial Banks commitment to Examining the Shipping Documents of Letters of Credit and the risks of fraud, cheat and manipulation in their field "* was 2.44 with a standard deviation equals 0.62, and since the Wilcoxon test statistic equals 1973.5 with a p-value equal 0.000 which less than 5%, we conclude that the population under study, in general, tends to disagree on the questions.
- The overall average for questions regarding *" Information on the extent of Libyan commercial banks commitment to the general controls for opening letters of credit by the Central Bank of Libya "* was 2.57 with standard deviation equals 0.49, and since the Wilcoxon test statistic equals 1703.5 with a p-value equal 0.000 which less than 5%, we conclude that the population under study, in general, tends to disagree on the questions.
- The overall average for questions regarding *"The existence of many differences from the external correspondent indicates the lack of credibility in the procedures, the most important of which are the following"* was 2.97 with standard deviation equals to 0.71, and since the Wilcoxon test statistic equals 9140.5 with p-value equal 0.599 which greater than 5%, we conclude that the population under study, in general, tends to be neutral on the questions.
- Regarding the main hypothesis, *"Libyan commercial banks have no role in reducing fraud and cheat in letters of credit transactions"*, the average value is 2.8 with a standard deviation equals 0.42, and since the t-test statistic equals -6.59 with a p-value equal to 0.000 which is less than 5%, we conclude that the population under study, in general, tends to disagree on the questions, which mean that **Libyan commercial banks have a role in reducing fraud and cheat in Letters of Credit transactions.**

3-Regression Analysis:

The encyclopedic scientist Francis Galton is the first to apply the term regression in statistics, and it is defined as a set of statistical methods used in estimating the relationships between a dependent variable and one or more independent variables.

• Simple Linear Regression

It is the simplest and most common form of regression, and it estimates the relationship between two variables, one of them is the dependent variable and the other is the independent variable.

The mathematical relationship is as follows:

$$Y_i = B_0 + B_1 X_i + E_i$$

Where: Y_i = dependent variable, X_i = independent variable, E_i = random error, B_0 = a constant value that expresses the value of the dependent variable when the independent variable is zero, B_1 = is the slope of the straight line representing the relationship[1].

Dependent variable: in reducing cheat against the Buyer					
	Beta	Std. Error	t	P-value	R
(Constant)	2.811	0.190	14.82	0.000	0.29
The role of Libyan Commercial Banks	0.307	0.071	4.30	0.000	
F= 18.48 P-value= 0.000					

Table (5.23): Shows that the relationship between the two variables is positive and statistically significant

We note from the previous table that the value of the coefficient of the independent variable is equal to 0.370 which is a positive and statistically significant value (P-value=0.000 less than 5%), and this means that there is a positive relationship between the two variables. We also note that the model as a whole was significant as the value of $F=18.48$ with a P-value = 0.000 less than 5%. Also, the value of the correlation coefficient was equal to 0.29, and this confirms the positive relationship between the two variables, and this means if the role of Libyan commercial banks increases, in reducing fraud and cheat in Letters of credit transactions, they will increase their limit for fraud and cheat that may fall on the buyer by the seller (the exporter), in other words, there will be a decrease in the fraudulent letter of credit transactions by the seller.

Dependent variable: in reducing cheat against Banks					
	Beta	Std. Error	t	P-value	R
(Constant)	1.056	0.142	7.41	0.000	0.67
The role of Libyan Commercial Banks	0.673	0.054	12.55	0.000	
F= 157.5 P-value= 0.000					

Table (5.24): Shows that the relationship between the two variables is positive and statistically significant

We note from the previous table that the value of the coefficient of the independent variable is equal to 0.673 which is a positive and statistically significant value (P-value=0.000 less than 5%), and this means that there is a positive relationship between the two variables. We also note that the model as a whole was significant as the value of F=157.5 with a P-value = 0.000 less than 5%. Also, the value of the correlation coefficient was equal to 0.67, and this confirms the positive relationship between the two variables, and this means that if the role of Libyan commercial banks increases in reducing fraud and cheat in letters of credit transactions, they will increase their limit for fraud and cheat that may fall upon them by the seller (exporter) or the buyer (importer) or both together, in other words, there will be a decrease in transactions fraudulent letters of credit by the seller or buyer or both.

Dependent Variable: in reducing fraud in Letters of Credit (Documentary Forgery)					
	Beta	Std. Error	t	P-value	R
(Constant)	1.042	0.231	4.52	0.000	0.49
The role of Libyan Commercial Banks	0.683	0.087	7.88	0.000	
F= 62.06 P-value= 0.000					

Table (5.25): Shows that the relationship between the two variables is positive and statistically significant

We note from the previous table that the value of the coefficient of the independent variable is equal to 0.683 which is a positive and statistically significant value (P-value=0.000 less than 5%), and this means that there is a positive relationship between the two variables. We also note that the model as a whole was significant as

the value of $F=62.06$ with a $P\text{-value} = 0.000$ less than 5%. Also, the value of the correlation coefficient was equal to 0.49, and this confirms the positive relationship between the two variables, and this means that if the role of Libyan commercial banks increases in reducing fraud and cheat in letters of credit transactions, they will increase their limit for fraud in the forged documents submitted by the buyer (importer), the seller (exporter), in other words, there will be a decrease in forged documents submitted for banks.

Dependent variable: in reducing Manipulation of Letters of Credit					
	Beta	Std. Error	t	P-value	R
(Constant)	1.532	0.180	8.51	0.000	0.48
The role of Libyan Commercial Banks	0.526	0.068	7.77	0.000	
F= 60.4 P-value= 0.000					

Table (5.26): Shows that the relationship between the two variables is positive and statistically significant

We note from the previous table that the value of the coefficient of the independent variable is equal to 0.526 which is a positive and statistically significant value ($P\text{-value}=0.000$ less than 5%), and this means that there is a positive relationship between the two variables. We also note that the model as a whole was significant as the value of $F=60.4$ with a $P\text{-value} = 0.000$ less than 5%. Also, the value of the correlation coefficient was equal to 0.48, and this confirms the positive relationship between the two variables. and this means that if the role of Libyan commercial banks increases in reducing fraud and cheat in letters of credit transactions, they will increase their limit for manipulations that occur incorrect documents related to weights, packaging, and others by the seller (exporter) or the buyer (importer) or both together, in other words, there will be a decrease in documents Incorrect submitted to banks.

Chapter 6: Results and Recommendations

6.1 Results:

By studying Libyan commercial banks and their role in reducing fraud and cheat in letters of credit transactions, the results of the research that were reached through the analysis that was made for the responses of the research participants on this topic can be presented in the following points:-

1_Libyan commercial banks have a positive role in reducing fraud and cheat in letters of credit transactions concerning the following points:

-The increase in the role of Libyan commercial banks in reducing fraud and cheat in Letters of credit transactions, will increase their limit for fraud and cheat that may fall on the buyer by the seller (the exporter), in other words, there will be a decrease in the fraudulent letter of credit transactions by the seller.

- The increase in the role of Libyan commercial banks in reducing fraud and cheat in letters of credit transactions, will increase their limit for fraud and cheat that may fall upon them by the seller (exporter) or the buyer (importer) or both together, in other words, there will be a decrease in transactions fraudulent letters of credit by the seller or buyer or both.

-The increase in the role of Libyan commercial banks in reducing fraud and cheat in letters of credit transactions will increase their limit for fraud in the forged documents submitted by the buyer (importer), the seller (exporter), in other words, there will be a decrease in forged documents submitted for banks.

-The increase in the role of Libyan commercial banks in reducing fraud and cheat in letters of credit transactions, will increase their limit for manipulations that occur incorrect documents related to weights, packaging, and others by the seller (exporter) or the buyer (importer) or both together, in other words, there will be a decrease in documents Incorrect submitted to banks.

The regression analysis was used to explain the statement (positive and negative impact) of the role of Libyan commercial banks (the independent variable) in reducing fraud and cheat in letters of credit transactions (dependent variables), which are: in reducing cheat against the buyer, in reducing cheat against banks, in reducing Documentary forgery, in reducing manipulations in letters of credits.

2_Libyan commercial banks have a positive role in the field of foreign trade,

especially concerning their commitment to the Uniform Customs and Practice for Letters of Credit (UCP 600), and also concerning the process of examining and auditing documents, in addition to their compliance with the instructions of the Central Bank of Libya regarding the following controls:

- Its commitment to the conditions and procedures regulating the opening of letters of credit issued by the Central Bank of Libya.
- Its commitment to checking and auditing the shipping documents related to letters of credit and their compliance with the conditions of the letters of credit.
- It does not have major breaches and violations of the controls for opening letters of credit.

This means that theLibyan commercial banks have a role in reducing fraud and cheat in letters of credit transactions, we used a one-sample t-test for testing the main research hypothesis.

3_Within the framework of the role of Libyan commercial banks in reducing fraud and cheating in letters of credit transactions, some bank employees, in cooperation with the Libya Audit Bureau, managed during the year 2017 to suspend the implementation of a total of 24 Letters of credit, and collection fees that were found to have been fraudulently opened to obtain foreign currencies and not supply goods, and worth more than \$34 million, according to Table (4.2), and the result of this mechanism in reducing fraud and cheat in letters of credit transactions carried out by Libyan commercial banks in cooperation with the Libyan Audit Bureau is positive and effective.

4_There is no transparency around public sector letters of credit, as the Central Bank of Libya usually did not publish who obtained the letters of credit, for what value or for what goods and the Central Bank of Libya withheld the system of letters of credit from the Libyan Audit Bureau, and the reason for concealing the data from the Bureau was to cover up suspicious letters of credit granted by the Central Bank in favor of some merchants with favoritism by putting pressure on commercial banks and the involvement of these merchant crimes later, and this dynamic has significance beyond Libya, highlighting the tension between the independence of the Central Bank of Libya and oversight, which is the reason growing concern globally.

5_The Director of Banking and Cash Supervision Department at the Central Bank of Libya issued several circulars to commercial banks in general or some banks in particular not to cooperate with the Audit Bureau or to provide any data on letters of

credit or current accounts or to freeze accounts involved in money smuggling.

6_The Central Bank of Libya withheld the system of letters of credit from the Audit Bureau, and the reason for concealing the data from the Bureau was to cover up suspicious letters of credit granted by the Central Bank in favor of some merchants with favoritism by putting pressure on commercial banks and the involvement of these merchant crimes later.

7_Most of the cases of fraud and cheating that occurred in the transactions of letters of credit related to the Libyan importer and his procedures for opening the letters of credit and its connection with the customs authority, as there is no integrated understanding of customers and merchants in large aspects in the transactions of letters of credit related to import and export, and they depend on what the exporter requests, which allows room for Issuer for tampering and fraudulent document fraud.

8_Examining public sector letters of credit and how control of the letter of credit system has historically placed the Central Bank of Libya at the center of Libyan public procurement.

9_The Central Bank of Libya has asked commercial banks to give priority to correspondent banks within the CBL's corporate network. Cost; If the documentary letter of credit is "confirmed", it is obligated to honor the transfer of funds even if the importer's bank fails to do so.

10_Exposing serious loopholes in British anti-money laundering and terrorist financing laws regarding “correspondent banks” that make them ineffective in identifying fraud in trade finance, dispute finance, and other types of financial crimes, and correspondent banks have emerged as a major weakness of money laundering in the global financial system.

11_Libya loses millions of dollars annually by fraud in using the system of letters of credit administered by the Central Bank of Libya. While the letters of credit system is a vital element in meeting Libya's needs for imports, it has suffered from misuse, which is continuing, as indicated by the evidence of the Global Witness Report.

12_Senior officials in the Central Bank of Libya assume administrative positions in commercial banks owned by Libya abroad, which is an explicit conflict of interest as most Libyan letters of credit enter the international financial system through the International PLC ABC Bank, which is based in London, which is a privately owned commercial bank. Indirectly from the Central Bank of Libya and headed by its governor.

13_The manipulation, fraud, and cheating in letters of credit transactions are carried out by the relevant parties from the suppliers and with the complicity of some employees of each of the commercial banks that open credits, the Central Bank of Libya, the Customs Authority, Customs employees, and inspection companies, by carrying out the following actions:-

- Submitting forged customs declarations by some suppliers and accepting them from the employees of commercial banks, opening letters of credit without being careful when inspecting the prices of goods and their items.

- It is not ensured that the customs declarations conform to the customs declaration and the documents related to it upon settlement, according to what is available at the Customs Authority, as well as without verifying their financial positions, licenses, and their fulfillment of the conditions for opening credits.

- Submission of incorrect supply invoices and documents by some suppliers and Customs employees to reduce the value of the imported goods to avoid paying customs duties, and they are accepted by the customs authority employees despite the lack of logical prices, due to poor acceptance procedures, numbering, and the goods declaration in addition to deficiencies in inspections and valuing interest.

- Inaccuracy of several certificates issued by inspection companies abroad and bills of lading regarding imported goods.

- Not using automatic inspection devices and not proving the case when suspicions of weight are noticed by some ports, due to the absence of the real role of internal control devices in (Customs Authority - Port Administration), where a large number of empty containers whose value was transferred abroad without importing goods in exchange for it.

14_The Central Bank of Libya did not follow the correct policies when granting approvals, opening letters of credit and executing transfers, or setting the necessary controls for commercial banks to monitor the opening operations and verify the correct implementation.

15_The involvement of the Banking and Monetary Supervision Department at the Central Bank of Libya in conducting actions that fall under mediation, favoritism, violating legislation and financial and banking systems, and bypassing the powers and authorities, in addition to their inconsistency with the nature of its work, such as the supervisory department, which inspects it. Specific to the violation, especially after it became clear that the transport invoices attached to their files were forged, indicating

that the funds were used to smuggle money abroad without importing goods from them.

16_The failure of the Banking Supervision Department of the Central Bank of Libya to carry out its tasks about monitoring commercial banks and achieving effective control over their work, ensuring the safety of their financial conditions, and evaluating their performance by activating the inspection department in the bank and setting up the appropriate mechanism to ensure that this is achieved.



6.2 Recommendations:

Through presenting the previous results, the research recommends the following recommendations:-

1_The role of the Central Bank of Libya, commercial banks, and customs offices should not be limited to facilitating the opening of letters of credit and entry of goods only, but rather it should go beyond monitoring their use to facilitate the achievement of goals, and that it does not turn into a means of smuggling hard currency while working seriously to take the following measures:

2_Increase the effectiveness of the internal control procedures necessary to address many of the deficiencies, in the form of an integrated work mechanism that includes all forms and reports that guarantee the achievement of a reasonable amount of targets, which are summarized as follows:

A-Some deficiencies in the operational control systems of banks should be avoided when they open letters of credit to supply goods, through the due diligence allowance and adherence to the controls in force in this regard.

B-The internal review and control procedures should be activated, and the foundations for liability accountability should be strengthened in all stages and procedures for opening letters of credit to achieve real benefit for which they were activated and to limit manipulation and make them a means of smuggling money abroad, without entering the corresponding commodities and goods at prices and specifications. Proportional to the values of these conversions.

3_Increasing the efficiency of bank employees and strengthening the foundations of accountability through the procedures for opening letters of credit, by separating the terms of reference, specifying responsibilities, and clearing all stages that support the decision to open the letters of credit.

4_Putting in place supervisory controls that can help in controlling currency transfers by using letters of credit reducing the level of corruption and manipulating them to a minimum.

5_Increasing the efficiency of customs inspectors and activating internal control procedures and good governance within its departments and outlets supervising them.

6_Providing opportunities for bank clients, such as businessmen and others, to get acquainted with the concept of letters of credit, their types, characteristics, parties, methods, and how to deal with them, through training courses organized by banks or

chambers of commerce and industry.

7_The bank employee in the field of letters of credit must have a high degree of experience, with the need to obtain training courses in this field, because most of the documentary fraud operations that took place were either due to the employees 'lack of experience in this area or due to their negligence.

8_The suppliers must expedite the settlement of their transactions and obligations with the relevant parties in the state following their actual supplies and according to the controls established by the law regarding customs.

9_The Central Bank of Libya stresses the need for all banks to adhere to the instructions issued by it in particular by informing the Banking Control and Cash Department about cases of fraud, embezzlement, fraud, and cheating that they are exposed to, in addition to the banks providing this department with sufficient information that includes the background of the facts and the measures taken towards them, provided that the Reporting in a timely and up-to-date basis on an ongoing basis.

10_Take all necessary legal measures to control those involved in any tampering with letters of credit and exploit them for other than the purpose for which they were opened, and fight all negative phenomena harmful to public money and the state's economy, uncover violators of public opinion and refer them to the competent authorities following the powers granted to them by the law and its executive regulations.

11_Public authorities in Libya must put financial transparency at the center of peace dialogues, starting with the foreign exchange system such as letters of credit. This is essential to help build confidence in public institutions at this pivotal moment for the country.

12_The increasing global role of central banks in the direct disbursement of funds should be accompanied by increased accountability and oversight over their management of public funds.

6.3 Conclusion:

The result of this mechanism in reducing fraud and cheat in letters of credit transactions carried out by Libyan commercial banks in cooperation with the Libyan Audit Bureau is positive and effective in stopping dealing with letters of credit that were opened for fraudulent purposes to obtain foreign currencies without importing goods in return.

As a result of the three paragraphs respectively of the results (4, 5, and 6), the researcher cannot obtain data on the volume of letters of credit transactions for Libyan commercial banks and other commercial banks, as well as their volume within the Central Bank of Libya, and therefore it is difficult to assess their role (an assessment by numbers) in limiting fraud and cheat in them without this data, The researcher has evaluated its role in limiting fraud and cheat in letters of credit transactions only through what has been published in the Libyan Audit Bureau Reports during the past years as an effective supervisory authority in the country.

The Libyan state, through the Central Bank of Libya, which requires at present opening letters of credit to importers to import different commodities, but the Libyan importer is involved in the process of manipulation, fraud, and cheat in the field of letters of credit This manipulation is by forging the original documents of the goods in the country of the beneficiary (the exporter), which is the result of a prior agreement between the Libyan importer and the exporter abroad on manipulation, forgery, and fraud as a result of the existence of previous transactions and great trust between them. Banks in the field of letters of credit deal only with valid documents and do not deal with valid goods and this is stipulated in Article (4) of the Uniform International Laws and Customs for letters of credit (UCP 600).

Therefore, the foreign correspondent banks that are authorized to circulate documents and in many cases are also authorized to pay will pay the beneficiary (issuer) and will release the credit documents in case of matching letters of credit to the terms of the letter of credit, or rather to the Swift credit only, and it has nothing to do with the type of imported merchandise Is it the same as the goods to be imported or not? What exactly is a forgery in the accreditation documents, specifically the certificate of origin, which proves that the imported goods are food commodities or medicines, while they are other non-food commodities or are not medicines such as electrical or household appliances, etc., or empty containers Without goods, and

accordingly, the banks authorized to pay will pay based on the original documents submitted by the issuer, which are forged documents, and it is not the role of the banks circulating the documents and authorized to pay to disclose the type of imported goods, is it the same as it is required to be imported or for it and this reason when disclosing the type of goods Imported through letters of credit at the port of arrival in Libyan ports or airports or even entering through the land borders.

Finding a radical and quick solution to stop manipulation, fraud, and forgery in the field of letters of credit to limit the depletion of the Libyan state's balance of foreign currency and smuggling it abroad and the consequent exacerbation of the problem of the rise of the dollar in the parallel market and its scarcity in the market as a result of smuggling it abroad, high prices and the high cost of living.

Letters of credit in Libyan commercial banks and commercial banks in other countries also allow for potential exploitation by fraudsters to fabricate documents that may plausibly go undetected by unsuspecting bankers.

Advancements in printing technology including state-of-the-art laser and color printers have presented scrupulous parties immoral opportunities to fabricate documents that appear seemingly genuine.

The highest fraud committed on documents is the bill of lading in international letters of credit and delivery orders in local letters of credit. Since the existence of fraud must be proven with clear and solid evidence, Libyan commercial banks are unable to cancel their payment undertaking under a letter of credit transaction even when fraud is suspected when the Documents are correct and in compliance with the terms of the letters of credit.

In most fraudulent letters of credit transactions, the party most seriously affected is usually the customer of the issuing bank, who in most cases is also the buyer in the transaction. They are at risk of having to service the credit facilities for goods that may not have been received or are of inferior quality.

Hence, customers must be very careful with whom they are dealing with to avoid putting their business at risk. Nonetheless, sellers may also be at risk should a buyer present, to the port authorities upon collection of the goods, fabricated documents (for example, a bill of lading). In this case, the buyer would fabricate documents that have been used in previous dealings with other traders and bypass the due banking process and payment procedures.

However, as far as Libyan commercial banks are concerned, letters of credit fraud

cases leave little impact on them as these conglomerates will usually survive and move on. On the other hand, the impact on customers is more severe as they face possible bankruptcy.

The dilemma that Libyan commercial banks face in dealing with fraudulent cases is perhaps not being able to intervene in such situations and is obligated to honor payment as long as the letter of credit terms are complied with. Such predicament occurs because Libyan commercial banks are bound by the (UCP) requirements of having to disburse payment even when the transaction is fallacious. There is unfortunately no provision dealing with a letter of credit fraud in all versions of the (UCP).



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APPENDIX

QUESTIONNAIRE SHEET FORM

Dear Mr.,

After Greetings,

At the outset, I would like to thank you for giving a part of your time to fill out this questionnaire, which is a questionnaire about (the role of banks in reducing fraud and cheat in letters of credit transactions) an applied study on Libyan commercial banks and other commercial banks, and it is part of the requirements for obtaining the exact degree) Ph.D. (In the field of finance and banking, and from here it requires your assistance in completing this research by answering accurately and objectively the set of questions included in the attached questionnaire, as we believe that you are the best source for obtaining the required information. We draw your attention to the fact that the information you will provide will be used for scientific research purposes only, and therefore we ask you to answer accurately and impartially.

With sincere gratitude and great appreciation and respect for your response and contribution to the achievement of this scientific research.

Questionnaire sheet

The Role of Banks in Reducing Fraud and Cheat in Letters of Credit Transactions

Applied Study on Libyan Commercial Banks and other Commercial Banks

Please tick (✓) between the brackets in front of the appropriate statement:

First: Demographic Data:-

1. Gender:

Male () Female ()

2. Age:

() Less than 30 years. () From 30 years to less than 40 years.
() From 40 years to less than 50 years. () From 50 years and over.

3. Education Level:

() Diploma. () Higher Diploma. () Bachelor.
() Master. () Doctorate. Other than that, Mentions.....

4. Specialization:

() Accounting. () Economy. () Financing and banking.
() Business Management. Other than that, Mentions.....

5. Job position :

() Director of the Department. () Head of letters of credit Section.
() Letters of Credit Officer.
() Other than that, Mentions.....

6. Experience Years:

() Less than 5 years. () From 5 years to less than 10 years.
() From 10 years to less than 15 years. () From 15 years to less than 20 years. () From 20 years and over.

7. Training courses during which you participated during your work in the bank:

() Letters of Credit. () Computer and Its Applications.
() Swift System. () Terms of Delivery, Incoterms 2010.
() International uniform customs and practice for LC (UCB 600).
() Other than that, Mentions.....

Second: Information regarding the extent of Libyan commercial banks commitment to the procedures and conditions for opening letters of credit by the Central Bank of Libya:

No	Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The Bank does not adequately care about International Uniform Customs and practice for LC (UCP 600- 2007).					
2	The Central Bank of Libya and commercial banks did not follow the right policies when granting approvals, opening letters of credit and executing remittances, or establishing the necessary linkages for commercial banks to monitor the opening and verifying the validity of implementation.					
3	lack of interest in commercial banks to study and evaluate the financial potential of customers.					
4	Many commercial banks open letters of credit and the use of correspondents their credit level of global banking is weak, and failure to adhere to the instructions of the Central Bank of Libya to deal only with correspondents who have a credit rating of no less (-A).					
5	Failure of commercial banks not to set clear, accurate and satisfactory conditions for the initial invoices, with the negligence of requesting adequate documents when opening letters of credits.					
6	Not to seal the Proforma invoices from the Ministry of Economy to ensure the achievement of the desired objectives of opening.					
7	Violation of commercial banks to Article (16) of the International Customs Bulletin (600) and that made the acceptance of the difference is the basis and not to accept the difference is the exception, while according to bank customs that the opposite is true.					
8	Weakness of the system of delivery and receipt of documents for letters of credits.					
9	Weakness of the procedures for the settlement and closure of credits after the arrival of the goods without serious verification of the extent of its implementation in accordance with the purpose of completing the necessary documents.					

Third: Information Regarding the Libyan importer and its procedures to open letter of credit and its association with the Customs Authority:

No	Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The Libyan importer in the field of letters of credits is familiar with the international Uniform Customs and practice for LC (UCP 600- 2007).					
2	At the opening of the credit, the Libyan importer is not obliged to fill in the letter of credit Form correctly according to his agreement with the beneficiary according to the Proforma invoice or the initial sales contract.					
3	There is no clear confusion in understanding what L / C is with other import methods by the Bank's customers.					
4	The Libyan importer is inaccurate in the procedures of opening the credit and depends on the ideas of the beneficiary in the progress of the implementation of the credit and amendment, even if it is in the interest of the beneficiary.					
5	Submitting forged customs declarations by some suppliers and accepting them from bank employees, opening letters of credit without being precise when inspecting the prices of goods and their items.					
6	Customs declarations shall not be ascertained in conformity with the declaration and related documents at the time of settlement in accordance with the customs authority.					
7	Submitting incorrect invoices and import documents by some individuals and customs brokers to reduce the value of goods supplied to avoid paying customs duties.					
8	Inaccuracy of a number of certificates issued by inspection companies abroad and bills of lading regarding goods supplied, also not to use automatic inspection devices and not to prove the case when the suspicions in weight by some ports					

Fourth: Information on the extent of the Libyan Commercial Banks commitment to Examining the Shipping Documents of Letters of Credit and the risks of fraud, cheat and manipulation in their field.

No	Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	The bank does not exercise caution in the stages of the implementation of the Letter of credit), especially with regard to the checkof documents.					
2	Letter of Credit does not give any protection against the risks of fraud, deception and forgery when dealing with a group unknown by the bank.					
3	The bank does not bear the burden of checking the shipping documents and their conformity with Swift credit.					
4	The bank is not interested in reviewing the Swift credit and its conformity with the basic conditions agreed upon with the issuer under the Proforma invoice.					
5	The bank is not interested in reviewing the shipping documents upon receipt from the Beneficiary bank or the Correspondent Bank					
6	The bank often does not draw the client's attention to gaps in the letter of credit, especially in relation to the documents and treats the client's request as a profitable business transaction.					
7	The bank does not have the right to refuse documents if it is aware in advance of their forgery.					
8	The bank do not deal with valid documents when checking documents.					
9	The bank does not cancel the L / C in case of submitting forged documents including a bill of lading and no goods have been shipped from the exporter or the specifications of the imported goods are not required.					
10	The bank does not take any responsibility for defects of form, or inefficient shipping documents, or inaccuracy, or falsification, or originality.					

Fifth: Information on the extent of Libyan commercial banks commitment to the general controls for opening letters of credit by the Central Bank of Libya:

No	Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Most banks did not comply with the Central Bank of Libya Circular No. 2 of 2016, and related to the conditions for opening L / C.					
2	Approving the opening of letters of credits without the approval of the Central Bank of Libya and obtaining a number (CBL Code).					
3	Uncertainty of the validity of the data of the exporting company abroad (beneficiary) by addressing the reporter to ensure financial solvency and free of any legal reservations or suspicion, and there is no relationship with the importing company.					
4	Failure of the Bank to verify the financial positions of the suppliers and their licenses and that they meet the conditions for opening credits.					
5	Non-compliance with the cash cover ratio of 130% of the value of credit.					
6	The bank does not follow the procedures for approving the Proforma invoice according to the bank hierarchy.					
7	The telegram does not contain a specific description of the goods supplied and their detailed data.					
8	The L / C file is free from customs declarations and letters of forwarding the shipping documents to the Customs Authority and Form 300 of the import process.					
9	The documentary form of opening the L / C does not include the bank's competent department specifying the reasons and criteria for accepting the Proforma invoice, It also lacked the approval of the Internal Audit Section.					
10	The Proforma invoice does not include an accurate description of the goods supplied and represented in weights, components and internal composition, especially with regard to food and baby food.					
11	Some companies that have opened a recent letters of credits and did not exceed the age of their bank account for the year.					

No	Question	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
12	No international inspection company has been identified in the telegram for issuing the letter of credit.					
13	Failure to carry out the necessary professional care in examining the shipping documents according to the customs and standard transactions organized to open the letters of credit.					

Sixth: The existence of many differences from the external correspondent indicates the lack of credibility in the procedures, the most important of which is the following:

No	Question	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
1	Expiry of letters of credits and late submission of documents.					
2	Delay in shipping.					
3	Issuing the Chamber of Commerce Certificate after the date of shipment.					
4	The certificate of origin is not included in the invoice.					
5	Failure to submit health certificate.					
6	Ship certificate issued before the date of documentary credit and did not show the letter of credit number.					
7	The inspection certificate does not indicate the address of the company.					
8	Chamber of Commerce and Health certificates are not approved.					
9	Issuing two policies while the packing list shows one policy.					
10	Issuing the inspection certificate in the name of a supplier company not included in the credit.					
11	There are fundamental differences in the lack of conformity between the documents of letters of credit such as the preliminary and final invoice and the rest of the shipping documents in terms of quantities without clarifying the weights, and the reporter does not clarify them within the differences.					