

SHARIAH COMPLIANCE OF ISLAMIC LETTER OF CREDIT FOR INTERNATIONAL TRADE

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Abstract: The letter of credit (LC) is a document issued by a bank or any other financial institution, which permits/ entitles the beneficiary of the credit to obtain payment through his bank subject to compliance with the terms and conditions stipulated in the letter of credit. There are many other institutions including Islamic Micro Financiers offering Murabahah, Mudharabah, Ijarah, Wakalah, Musharakah, Diminishing Musharakah, Takaful etc. There is no research yet to be carried out to find out how LC are being practiced in IFIs in Sri Lanka and what are the internal Shari'ah contracts were used for Islamic LC and what are the issues in conventional LC practices within the country regulations. This shows a research gap in this sector. Therefore, there is a need to examine the issues in LC practices of IFIs and the status of Shari'ah contracts applied in IFIs in Sri Lanka. This study has carried by primary and secondary data. Semi- structured interview has used as the main method of data collection. Every discussion has held with relevant personals such as Shari'ah Supervisory Board (SSB) members, Shari'ah advisors, product development unit staffs and managers. The conversation during the discussion has recorded and analysed through theoretical content analysis method. To achieve the research objectives mentioned above the study has used secondary data collected from the literatures such as journal publications, books and book chapters, authorized or recognized web site information, annual reports of the banks, information on official websites and official newsletters of banks, official newspapers and the like. And all the collected data were analyzed through content analysis and documentation method. The researcher has identified that the applicability of the UCP 600 to the LC, subject matter of goods traded, Riba (interest), insurance and incoterms 2000, exclusion of liability and discrepancy fee are the main Shari'ah non- compliance issues available in the practice of LC in conventional banks of Sri Lanka.

Keywords: Letter of credit, International trade, Shari'ah compliance, Islamic banks, Import