System and Method for Securing a Letter of Credit through Hedging of Derivatives

ABSTRACT

Transforming hedging information and Forced Sale Value (FSV) information to a special LC and to a reduction in an applicant's booked credit limit and a reduced risk weighted asset (RWA), along with eliminating or reducing price risk and enabling a financial institution to determine its potential loss upon default, is disclosed. The disclosed LC is obtained through application, in relation to shipment of a commodity and the commodity is hedged against price risk by the issuing financial institution. The issuing financial institution also determines a FSV for the commodity. Thus, the issuing financial institution determines what the commodity would sell for, regardless of price movements, should the buyer not follow through with payment and a forced sale becomes necessary.

Figure 3