

The bill of exchange at the Geneva fairs: how a lettre de change worked

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The bill of exchange is the most important financial innovation of the Middle Ages. It solves three problems in one instrument: it moves value over distance without transporting coin, it exchanges currency, and it grants credit for its term. At the Geneva fairs it was used on a scale that made the city one of the principal clearing places of Europe. Its mechanics repay close study, because trade finance today rests on the same ideas.

1 The four roles

A classical bill involves four parties, and confusion about which is which accounts for most misunderstandings of the instrument.

Role	What they do	Example
Deliverer	pays money at the place of issue	a Florentine merchant wanting funds in Geneva
Drawer	issues the bill against that payment	a Florentine banking house
Drawee	pays the bill at the place of payment	that house's Geneva branch
Payee	receives the sum in the local currency	the merchant's agent at the fair

In the practice of the great Italian companies, drawer and drawee were frequently branches of the same house, which is why the instrument required a branch network and why the houses that had one dominated.

2 Why the return was invisible

Because issue and payment took place in different currencies, the return on the transaction appeared as a difference in exchange rates. Formally no interest was taken.

The canonists accepted the analysis: exchange is the purchase of a sum of money payable in another place, and a purchase may be made at a price. The risk that the rate would move against the drawer supplied the element of uncertainty that distinguished the transaction from a loan at interest.

The practical consequence was that the cost of credit was embedded in a price, with no rate stated anywhere, which made it hard to compare across transactions — a feature, from the point of view of the houses quoting the rates.

3 Usance, acceptance and protest

Three further elements made the instrument workable in commercial practice.

Usance was the customary period between issue and maturity for a given pair of places — longer between distant cities, shorter between neighbouring ones. It standardised the credit period and made bills comparable.

Acceptance was the drawee's undertaking to pay at maturity, given by signing the bill. Before acceptance the holder had only the drawer's promise; after it, he had two obligors.

Protest was the formal record, usually by a notary, that presentation had been made and payment refused. It preserved recourse against the drawer and any endorsers. This is where the Geneva notarial tradition intersects with the financial one: the city had the officers who could make an instrument that would be recognised abroad.

4 The fair as a clearing date

The fairs gave the bill its calendar. Maturities were set for the next fair. At the fair the claims were compared and set off against one another, and only the residual balance moved in coin.

This is multilateral netting, and its advantages are the same now as then: less coin in transit, less risk of loss or robbery, less capital tied up, and a single settlement date on which everyone concentrates. Geneva's role was

to be the place where the netting happened for traffic between Italy and north-western Europe.

It follows that the loss of the fairs to Lyon after 1462 cost Geneva more than a market for goods. It cost the city the clearing function, which is the more valuable of the two and the harder to recover.

5 Endorsement and what it changed

The bill became transferable through endorsement, the note of transfer on the reverse. It appears in Italy in the fifteenth century but generalises only towards the end of the sixteenth.

The change is fundamental. Before endorsement, a bill is a private arrangement between identified parties, and a holder who needs money before maturity must borrow against it. After endorsement, the bill itself circulates: it can be passed on in payment, and each endorser adds his own liability to the chain. The instrument becomes, in effect, money for merchants.

In the eighteenth century the discount — a bank buying the bill before maturity at a deduction — and later the cheque took over the functions. The Dictionary of Swiss history dates the spread of endorsement to the late sixteenth century, somewhat earlier than the seventeenth-century date sometimes given in general accounts.

6 What survives in modern trade finance

Strip the archaic vocabulary and four ideas from the medieval bill are still operating.

- **A document embodies a claim.** Possession of the paper, and its regularity on its face, determines entitlement. The documentary credit works this way, and so does the bill of lading.
- **Examination is formal.** The payer checks the instrument, not the underlying transaction. Strict compliance in documentary credits is the direct descendant of this principle.
- **The return sits in a differential.** Between two dates, two places, two currencies, or two prices. Trading houses still earn in exactly these differentials.
- **Chains of liability substitute for credit assessment.** Each endorser adds an obligor; each confirming bank adds an undertaking. Where information about the ultimate obligor is poor, liability chains do the work instead.

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The vulnerability is also the same. An instrument whose value depends on its genuineness and its uniqueness can be forged or issued twice, and the holder who relies on the face of the document has no protection against either. That is what the multiple-financing frauds of 2020 exploited, five centuries after the notaries of Geneva began protesting bills for non-payment.

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