

Commodity finance in Switzerland

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Commodity traders earn thin margins on large volumes. What decides their profit is access to finance at the right price, and the banks in Geneva, Zug, Lugano and Zurich provide a large share of it.

1 The main instruments

- **Transactional finance:** the bank finances an individual cargo from purchase to sale and is repaid from the proceeds.
- **Borrowing base facilities:** a revolving credit line whose limit follows the value of inventory and receivables, recalculated regularly.
- **Pre-export finance:** the bank advances money to a producer against future deliveries, which are sold to an offtaker.
- **Documentary credits:** letters of credit, usually subject to the Uniform Customs and Practice for Documentary Credits (UCP 600) of the International Chamber of Commerce.

2 Security under Swiss law

A pledge of movable goods requires that the pledgee obtains possession (Art. 884 para. 1 CC); no pledge arises as long as the pledgor retains exclusive control of the goods (Art. 884 para. 3 CC). Banks therefore work with warehouse receipts, bills of lading and collateral managers. Receivables are assigned in writing (Art. 165 para. 1 CO); the debtor need not be notified.

3 After the frauds of 2020

A series of insolvencies of trading houses in Asia in 2020, some involving the same cargo pledged to several banks, led lenders to tighten their requirements. Banks now look more closely at the trader's control systems,

the independence of inspection and storage, and the reconciliation of documents with physical goods.

4 What pays off in practice

- **Audited accounts and a credible risk management function** lower the margin a bank charges.
- **Clean documentary chains** make each cargo financeable.
- **Several banking relationships** protect the business if one bank reduces its exposure to the sector.

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