

The documentary credit

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The documentary credit, or letter of credit, is the central instrument of commodity trade finance. Under this contract, the buyer's bank, known as the issuing bank, undertakes to pay the seller, or to accept bills drawn by the seller, against presentation of documents that conform to the stipulated conditions, within a set period. The seller thereby obtains the undertaking of a bank, independent of the buyer's creditworthiness. The buyer obtains the assurance that payment will be made only if the documents prove the shipment of conforming goods.

The typical documents comprise the bill of lading, issued by the sea carrier, which attests to receipt of the goods and confers the right to claim them, followed by the commercial invoice, the inspection certificate, issued by a company such as the Société générale de surveillance, the certificate of origin, the insurance policy or certificate and, finally, the customs documents. The bank examines these documents with the utmost care, because the documentary credit obeys the principle of independence: the bank pays against conforming documents, without concerning itself with the performance of the underlying contract of sale, while refusing to pay if the documents show the slightest discrepancy.

Documentary credits are governed by the Uniform Customs and Practice of the International Chamber of Commerce, the version in force being publication no. 600, adopted in 2007, supplemented by rules on electronic presentation.¹ These rules, applied universally, ensure the uniformity of the instrument throughout the world. Swiss law, which does not specifically regulate the documentary credit, refers to them through trade usage and the law of mandate.²

The documentary credit may be confirmed by a second bank, generally the seller's bank, which adds its own undertaking to that of the issuing bank. Confirmation protects the seller against the risk of default by the issuing bank and against the buyer's country risk, which is essential in trade with

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countries whose banks are fragile. Geneva banks thus confirm a great many credits issued by banks in producing countries.

Party	Role
Applicant	buyer who asks its bank to issue the credit
Issuing bank	buyer's bank, which undertakes to pay against conforming documents
Beneficiary	seller, who presents the documents and receives payment
Advising or confirming bank	seller's bank, which advises the credit and, where applicable, adds its own undertaking
Reimbursing bank	bank responsible for reimbursing the bank that has paid

The parallel with the bill of exchange of the medieval fairs, described in Part A, is striking. In both cases, four parties, two places, documents and the undertaking of bankers make it possible to transfer funds and extend credit without transporting cash or meeting in person. Although the instrument has changed in form, its logic of documentary trust has remained.

Worked example. A Geneva trader sells 30,000 tonnes of sugar to an East African importer for USD 15 million. The importer's bank issues a documentary credit in favour of the trader, confirmed by a Geneva bank. The trader ships the goods, obtains the bill of lading and the inspection certificate, and presents the documents to the Geneva bank, which examines them and pays the trader within five business days. The Geneva bank is reimbursed by the issuing bank. If the importer fails to pay its bank, that is the issuing bank's problem. Where the issuing bank itself defaults, however, the confirming bank bears the loss. The figures are fictitious.

1 Notes

1. ICC Uniform Customs and Practice for Documentary Credits, 2007 revision (UCP 600), in force since 1 July 2007, which reduced the text from 49 to 39 articles and introduced sections on definitions and interpretation; "Règles et Usances Uniformes", fr.wikipedia.org (accessed September 2026); eUCP supplement for electronic presentation. ↩

2. Nicolas de Gottrau, “Principe de la rigueur documentaire” (The principle of strict documentary compliance), CDBF, 16 January 2007, commenting on the Federal Supreme Court judgment 4C.393/2005 of 9 November 2006: the bank “had only to verify the formal regularity and the conformity with the conditions” of the credit, strict documentary compliance being “the rule”, save for an irregularity “so insignificant that it could in no circumstances cause any prejudice”; Samuel Zemp, “Le Tribunal fédéral précise l’obligation de diligence de la banque émettrice” (The Federal Supreme Court clarifies the issuing bank’s duty of care), CDBF, 24 February 2009, on judgment 4A_488/2008 of 15 January 2009 (standby credit subject to UCP 500; issuing bank having “breached the principle of strict documentary compliance”, reimbursement refused under Art. 398 para. 2 and Art. 402 para. 1 CO); CDBF, “Entrée en vigueur le 1er juillet 2007 des RUU 600” (cdbf.ch/fr/494). ↩

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