

The documentary credit up close: a typical transaction

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The documentary credit is worth following step by step, because its mechanics explain both its strength and its weaknesses. A Geneva trader sells 30,000 tonnes of raw sugar to a refiner in East Africa. The buyer asks its bank in Mombasa to issue an irrevocable documentary credit in favour of the trader, payable at sight against presentation of a set of documents: bill of lading, invoice, inspection certificate, certificate of origin, insurance policy. The trader's Geneva bank advises the credit and, if it confirms it, undertakes itself to pay against compliant documents, taking on the risk of the issuing bank and of the country.¹ The trader loads the vessel, obtains the documents, presents them to its bank, which examines them within the prescribed five business days, and receives payment. The Geneva bank then obtains reimbursement from the issuing bank, which hands the documents to the buyer against payment, allowing it to collect the goods.

Each step carries a risk that practice has learned to handle. A discrepancy between the documents and the terms of the credit — a date, a quantity, a spelling — entitles the bank to refuse payment, which exposes the trader to rejection by the buyer if prices have fallen. Banks in fact reject a significant proportion of presentations at the first attempt.² The issuing bank may default or be prevented from paying by sanctions, the country may impose exchange controls, the documents may be forged, as the frauds of 2020 showed. The documentary credit eliminates none of these risks; it allocates them among parties who know how to bear them, and this allocation is the service that the Geneva banks sell.

1 Notes

1. ICC Uniform Customs and Practice for Documentary Credits (UCP 600), in force since 1 July 2007, Art. 2 (definitions), 7 (issuing bank

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undertaking) and 8 (confirming bank undertaking); “Règles et Usances Uniformes”, fr.wikipedia.org (accessed September 2026). ↩

2. Trade Finance Training, “Discrepancy rates under UCP 600”, 23 December 2024: “it is estimated that the percentage of documents refused on first presentation ranges between 60-75%”, with regional variations; Nicolas de Gottrau, “Principe de la rigueur documentaire”, CDBF, 16 January 2007 (judgment 4C.393/2005: justified refusal of a document issued by “XYZ srl” where the credit required “XYZ spa”). ↩

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