

Trade finance: instruments, banks, risks — overview and summary

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Commodity trade finance, or transactional commodity finance, is a banking speciality of which Geneva is one of the principal centres in the world. It consists in financing specific commercial transactions, secured by the goods themselves, by means of documentary instruments that go back to the bills of exchange of the medieval fairs described in Part A. This chapter describes those instruments, the banks that practise them, the risks they involve and the recent developments in the sector.

1 In five sentences

1. Transactional trade finance rests on self-liquidating loans, secured by specific goods, whose margins can fall to 0.25 per cent in a global market estimated at USD 18 trillion.
2. The documentary credit, governed by the uniform rules of the International Chamber of Commerce, commits the buyer's bank to pay against conforming documents, following a logic inherited from the bill of exchange of the fairs.
3. Prepayments, inventory financing, borrowing-base facilities, syndicated loans and guarantees complete the toolkit, each with its own risks.
4. French, Dutch and Swiss banks dominated commodity trade finance in Geneva until the frauds of 2020, the withdrawal of several institutions and the disappearance of Credit Suisse altered the landscape in favour of the cantonal banks, Gulf and Asian banks and non-bank financiers.

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5. The sector has tightened its terms, mobilised technology and converged with wealth management towards a shared requirement of client knowledge and compliance.

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Online version: helveticaregister.com/geneva-trade-finance-instruments-banks-risks-overview-and-summary