

## Trade Finance in Lugano: Banks, Instruments and Risks — overview and summary

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A steel trader in Lugano who buys a cargo of billets in Turkey and sells it to a mill in Lombardy rarely pays for the goods with its own money. The purchase price is paid by a bank under a documentary credit, the cargo is pledged to that bank while it is at sea, and the buyer's payment flows back into an account that the bank controls. If the trader holds stocks in a port warehouse, a second bank may lend against warehouse receipts, while an insurer covers the risk that the buyer will not pay. A guarantee issued by a fourth institution secures the trader's own performance under a long-term supply contract. Trade finance is therefore the credit system on which the commodity cluster described in Part F rests. Chapter F.I showed that Lugano's trading houses are mostly small and specialized in steel, metals, coal and energy, and that the banks that finance them sit largely in Geneva and Zurich.<sup>1</sup> The present chapter asks what these banks actually provide, under which rules and with which risks, and what has changed since a series of frauds in 2020 drove several international lenders out of the business.

The argument of the chapter is that trade finance in Lugano is governed by three layers of law that must be read together. The first layer consists of private rules drafted by the International Chamber of Commerce in Paris: the Uniform Customs and Practice for Documentary Credits (UCP 600) with its electronic supplement eUCP, the Uniform Rules for Demand Guarantees (URDG 758) and the Uniform Rules for Collections (URC 522), complemented by the International Standby Practices (ISP98). The second layer is Swiss law, which treats the documentary credit as a payment instruction (*Anweisung*) under Articles 466 ff. of the Code of Obligations and the independent guarantee as a promise of the act of a third party under Article 111 CO, and whose courts have developed a narrow doctrine of abusive calls. The third layer is regulatory: the capital rules of Basel III, the anti-money laundering duties of banks, sanctions law and the industry

standards adopted after 2020. A Lugano trader that understands these layers can negotiate better facilities and avoid the mistakes that cost banks billions in Singapore and Dubai.

The chapter proceeds in ten steps. It first describes the market for trade finance in Switzerland and the banks that serve Lugano. It then treats the classic instruments in turn: documentary credits, documentary collections with the bills of lading that support them, and demand guarantees and standby letters of credit with the Swiss case law on abusive calls. A section on structured and transactional commodity finance covers borrowing base facilities, pre-export and prepayment finance, repurchase and inventory finance, receivables purchase, forfaiting, risk participations and credit insurance. The chapter then analyses the frauds of 2020 and the retreat of banks, the regulatory and supervisory framework, trade-based money laundering and the screening of vessels and documents, and the digitalization of trade documents under Swiss law. It closes with a checklist for the banking relationship of a Lugano trading house. Sanctions and export controls are treated in Chapter G.II, the anti-money laundering framework and organized crime in Chapter G.III and transparency in Chapter G.IV. This chapter refers to them where trade finance requires it.

## 1 Conclusion

Trade finance is the credit system of the commodity cluster that Part F described. For a Lugano trader it is above all transactional finance: documentary credits, collections, guarantees, pledges of goods and documents and assignments of receivables, secured by control over the cargo and the flow of payment. The legal framework combines ICC rules of almost universal application with Swiss rules that the Federal Supreme Court has developed with considerable consistency. The documentary credit is a payment instruction under Articles 466 ff. CO and is examined with strict formality. The independent guarantee is a promise under Article 111 CO, which binds the guarantor on first demand and can be stopped only if the call is manifestly abusive and the abuse is evident to the bank. Swiss courts, as the Zurich decisions of 2020, 2024 and 2025 show, apply the principle "first pay, then litigate" strictly.

The frauds of 2020 revealed the weak point of this system. Banks deal with documents and not with goods, and when the documents are false, duplicated or detached from the goods, the security disappears. The resulting retreat of several international banks from commodity finance, followed by a second retreat after the sanctions of 2022, has made trade finance scarcer and more expensive for small and medium-sized traders.

Lugano felt the effect more than Geneva because its traders are small and because the banks that serve them sit largely in Geneva and Zurich. The industry's answer has been a return to basics through the STSA guide of 2021 and the Wolfsberg principles: verification of bills of lading, vessel tracking, independent inspection and controlled payment flows. Switzerland has no supervisory text specific to commodity trade finance. The duties of banks follow from general banking, anti-money laundering and sanctions law, which the Federal Council judged largely adequate in 2020.

The digitalization of trade documents may in time reduce document fraud. Switzerland has created a modern legal basis for electronic documents of title through ledger-based securities and, since July 2026, through express recognition of electronic bills of lading in maritime law. The market has not yet adopted these documents on a large scale, and the failure of most blockchain trade finance platforms counsels caution. For the Lugano trader the lesson of this chapter is practical. Its access to finance depends on its own governance, transparency, counterparty screening and documentary discipline as much as on its balance sheet. The following chapter turns to the sanctions and export control regime that now shapes every transaction at the southern border.

## 2 In five sentences

Lugano's commodity traders depend on transactional trade finance provided mainly by UBS, cantonal banks and Geneva-based lenders, through documentary credits under UCP 600, collections under URC 522, guarantees under URDG 758 and ISP98, and facilities secured by goods, documents and receivables. Swiss law treats the documentary credit as a payment instruction under Articles 466 ff. CO examined with strict formality and the independent guarantee as a promise under Article 111 CO that can be stopped only for manifest and recognizable abuse. The frauds of Hin Leong, Agritrade and GP Global in 2020 showed that false or duplicated documents destroy the security of the banks, and several international lenders withdrew from the business, making finance scarcer for small traders. Swiss supervision relies on general banking, antimoney laundering and sanctions law, supplemented by the STSA's best practice guide of 2021, the Wolfsberg trade finance principles and Basel III capital rules in force since 1 January 2025. Switzerland's ledger-based securities and the express recognition of electronic bills of lading from 1 July 2026 provide a legal basis for digital trade documents, but a trader's access to finance still rests above all on its own governance, transparency and documentary discipline.

### 3 Notes

1. See Chapter F.I. The executive committee of the Lugano Commodity Trading Association, as approved by the general assembly of 3 December 2025, includes the head of commodity trade finance for metals and petrochemicals of UBS Switzerland, the head of trade finance credit analysis of the Banque Cantonale Vaudoise, a managing director for commodity trade finance of the Zürcher Kantonalbank and a board member of Banca dello Stato del Cantone Ticino: LCTA, "Comitato esecutivo", <https://www.lcta.ch/lcta-comitato-esecutivo/>.  
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