

# THE FUTURE OF COMMERCIAL CREDITS AND THE UCP GOVERNING RULES

by the BNP Paribas Trade Expertise Desk\*

*“No future”*. These words were “the battle cry” of the punk-generation in the 1970s. Might this slogan be the same *‘mane thekel’* – the foreboding of our doom – written on the wall for our own dearest Documentary Credit? It is not the first time that Letters of Credit are declared obsolete and “dead soon” in an ever-changing world. Meanwhile, however, the seventies generation is still alive and kicking. Likewise, it is quite comforting to know we can apply the same to our own bank instrument.

It is a well-established fact that trade in general remains one of the lifelines for any country and its survival. Whereas the context of trade and trade finance in which the documentary credit operates is prone to profound and radical changes lately, the documentary credit is still amongst the most expedient enablers in the trade (finance) scope. Notwithstanding change has become pervasive in any human activity nowadays, the basic characteristics of the Letter of Credit still stand.

An LC can still fulfil its typical role in the current environment, namely offer an inherent security for both commercial parties, linked to the documents. Or should we say to the compliance of the required documents. As such, a buyer can be sure of adequate documentation related to the goods or services purchased. At the same time, the seller can obtain financial security.

Of course, one might question the definition of a document nowadays. Documents are no longer carved in stone, nor are they written on parchment or sheepskin. It comes to mind that the carrier for a document is paper. But this is no longer a certainty. A Letter of Credit is conveyed by electronic means; and in future documents will be drafted (or are already drafted) electronically, up to their fully digital representation. How to cope with such a drastic evolution within the handling of documentary credits? This is an issue that will have to be addressed soon.

Another important role of a documentary credit is its capacity to solve the financing needs of both supplier and buyer. Both parties have conflicting interests in that a buyer wants to pay as late as possible; whereas a seller would like to avoid treasury constraints by being paid as quickly as possible. Letters of Credit have proven to be a powerful means to offer financing of trade transactions. And this will not be substantially different in an electronic/digital environment. Credit remains the grease in the supply chain in the sense that it smoothens processing transactions by overcoming the hurdles caused by lack of funds, requirements for payment certainty, etc.

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\* The BNP Paribas Trade Expertise Desk in Brussels consists of expert teams offering expert advice within the bank regarding international trade, focussing on trade related documentary business and bank guarantees. Members of the Guarantees Desk: Chantal Carpaj, Jean Minne, Thierry De Saeger. Members of the Documentary Desk: Patrick Vanbavinckhove, Didier Maeter, Gauthier Bernard. Head of the TED: Eddy De Coster.

All of this does not only mean that documentary credits as instruments of security and financing are essential, but a comprehensive and uniform (no pun intended) set of rules are indispensable in the successful application of the documentary credit activity. Being able to rely on the same rules and interpretations with regard to documentary credits, everywhere and at the same time, will prove to be one of the key strengths going forward, even in a digital world.

Consequently, the product as well as the related rules and regulations have to evolve with changing circumstances and adapt to the digital, probably web-based, environment. The changed context is digital, fast, cheap, imminently, and inherently transformational. This is the challenge to be dealt with: How to cope with digital instruments, constant change, and uniform regulation to keep the Letter of Credit alive? We cannot escape the storm of change coming towards us and will have to review our activity and its applicable rules ... in time. This means, the industry then should anticipate that within a few years we all have to begin adapting the rules to these radical changes in order to overcome being declared obsolete (again). We're afraid it will be a bare necessity. ■

#### **Additional Sources on This Topic:**

“Decision of the ICC in respect of a revision of UCP 600 following a comprehensive consultation”, International Chamber of Commerce (15 June 2017), Document 470/1272. [Background, Results of the Consultation, and Executive Committee Decision on future of UCP.]

“UCP 600: The Next Steps” by David Meynell (*DCW*, May 2017), p. 14. [Key Points, Analysis, and Decision regarding future of UCP.]