

Documentary business

The Deutsche Bundesbank assumes the tasks of opening, for the account of government institutions (and, in exceptional cases, credit institutions as well) letters of credit in favour of a foreign beneficiary and of issuing bank guarantees abroad.

1 Letters of credit

A letter of credit (L/C) is a commitment by a bank to pay a certain amount to the exporter of goods or services upon the timely presentation of documents which properly document the successful shipment of the goods or the services rendered successfully. An L/C meets all the conditions for being an instrument for borrowing and as an instrument to settle payments provided that the terms of its use are clear and unambiguous.

An L/C does not necessarily serve to collateralise goods deliveries alone, but instead may be employed to other ends. Regularly recurring payments (eg rent payments), for instance, can also be linked to an L/C.

The Bundesbank opens import documentary L/Cs to settle cross-border business with other countries and clean letters of credit to supply German diplomatic missions abroad with operating funds.

2 Guarantees

A bank guarantee is an irrevocable commitment given by a bank to pay a sum of money to the beneficiary in the event that a third party fails to render a given service or payment. This guarantee requires the bank to pay at "first call" if the conditions for drawing on it listed in the text of the guarantee are met.

The purpose of a guarantee is to give the beneficiary an immediate claim to payment in the event that the guarantee is invoked prior to the clarification of any differences of opinion on the execution of the underlying transaction.

According to the client's instructions, the bank either issues the guarantee itself (direct guarantee) or commissions another bank to issue it on the first bank's behalf (indirect guarantee).