IMT INFORMATION

COMMON BANKING INSTRUMENTS

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OVERVIEW OF COMMON BANKING INSTRUMENTS IN COMMODITY TRANSACTIONS

In international commodity transactions, banking instruments are commonly used to demonstrate financial capability, secure payment obligations, and reduce performance risk between buyer and seller. The exact instrument must always be agreed in the SPA and issued by an acceptable bank in a form approved by the receiving party.

LC – LETTER OF CREDIT

A Letter of Credit is a bank-issued payment undertaking used to secure payment from the buyer to the seller. The issuing bank agrees to pay the seller once the seller presents the documents required under the LC. These documents may include commercial invoice, packing list, transport documents, certificate of origin, inspection report, assay certificate, or other documents agreed in the contract.

An LC is commonly used where the seller wants payment security before dispatching goods, while the buyer wants assurance that payment will only be made against agreed documents.

The usual SWIFT format for an LC is **MT700 – Issue of a Documentary Credit**. Where the credit is too long for one message, banks may use **MT701 – Issue of a Documentary Credit Continuation**. Related SWIFT formats may include **MT705** for pre-advice, **MT707** for amendment, **MT710 / MT711** for advice of a documentary credit, and **MT720 / MT721** for transfer of a documentary credit.

An LC should normally be expected in **MT700 format**, unless the bank confirms another accepted structure.

DLC – DOCUMENTARY LETTER OF CREDIT

A Documentary Letter of Credit is a specific form of LC where payment is strictly linked to the presentation of compliant transaction documents. In commodity trade, the DLC is commonly used because shipment, inspection, title, customs, and delivery documents can be listed as payment conditions.

The DLC does not normally pay automatically upon contract signing. Payment is made only when the seller presents documents that comply with the DLC terms. For this reason, the wording of the DLC must match the SPA and the agreed transaction procedure very carefully.

The usual SWIFT format for issuing a DLC is **MT700 – Issue of a Documentary Credit**. If the documentary credit requires continuation pages, the bank may use **MT701 – Issue of a Documentary Credit Continuation**. Related formats may include **MT705** for pre-advice, **MT707** for amendment, **MT710 / MT711** for advice of a third bank's or non-bank's documentary credit, and **MT720 / MT721** for transfer of a documentary credit.

A DLC should normally be expected in **MT700 format**. The document requirements, payment trigger, expiry date, shipment conditions, inspection documents, and beneficiary details must be aligned with the signed SPA.

SBLC – STANDBY LETTER OF CREDIT

A Standby Letter of Credit is a bank undertaking that acts as a backup payment guarantee. Unlike a DLC, an SBLC is usually not intended as the primary payment method. It is activated if the buyer fails to pay or if another defined default occurs.

In commodity transactions, an SBLC may be used to give the seller comfort that payment is secured, while the buyer may still pay by normal bank transfer or another agreed method. The SBLC should clearly define the amount, expiry date, claim conditions, documents required for drawing, and the beneficiary.

The usual SWIFT format for issuing an SBLC is **MT760 – Issue of a Demand Guarantee / Standby Letter of Credit**. Where the message requires continuation, banks may use **MT761 – Continuation of MT760**. Related formats may include **MT765** for a demand under a guarantee or standby letter of credit, **MT767** for amendment, **MT768** for acknowledgement, and **MT769** for advice of reduction or release.

A SBLC should normally be expected in **MT760 format**, with claim conditions, expiry, beneficiary, amount, governing rules, and release conditions clearly stated.

BG – BANK GUARANTEE

A Bank Guarantee is a bank-issued commitment to pay a beneficiary if the applicant fails to meet a defined contractual obligation. It can secure payment, performance, advance payment, delivery obligations, or other agreed responsibilities.

In commodity trade, a BG may be used by a buyer to secure payment obligations, or by a seller to secure performance obligations. The exact purpose must be clearly stated. A BG should define the guaranteed amount, beneficiary, validity period, claim conditions, governing rules, and release conditions.

The usual SWIFT format for issuing a Bank Guarantee is **MT760 – Issue of a Demand Guarantee / Standby Letter of Credit**. Where the guarantee wording is too long for one message, banks may use **MT761 – Continuation of MT760**. Related formats may include **MT765** for demand under the guarantee, **MT767** for amendment, and **MT769** for advice of reduction or release.

A Bank Guarantee should normally be expected in **MT760 format**. The wording must clearly state whether the guarantee secures payment, performance, advance payment, delivery, or another defined obligation.

BF – BLOCKED FUNDS

Blocked Funds means money held or reserved in a bank account and restricted from being freely used by the account holder. The funds may be blocked in favour of a transaction, seller, buyer, financier, bank, trustee, or other agreed party.

Blocked Funds are often used to demonstrate that a buyer has available funds, or that a party has reserved cash collateral for a transaction. However, blocked funds are not the same as an LC, SBLC, or BG unless the bank issues a formal written undertaking. The blocking confirmation must clearly state the amount, account holder, beneficiary or reference party, purpose, validity period, release conditions, and whether the funds can be verified by the receiving party.

Blocked Funds do not always have one single standard SWIFT instrument format. The format depends on whether the bank is only confirming blocked funds, sending a free-format bank message, or issuing a formal undertaking.

Commonly used SWIFT formats for Blocked Funds may include **MT799 – Free Format Message / Bank-to-Bank Communication**, often used for authenticated bank-to-bank communication, pre-advice, confirmation of intent, readiness, or general verification. An MT799 may be used to communicate or verify blocked funds, but it is usually not a payment guarantee by itself.

Where blocked funds are converted into, secured by, or linked to a formal bank undertaking, guarantee, SBLC, or collateral-backed instrument, the relevant format may be **MT760 – Issue of a Demand Guarantee / Standby Letter of Credit**.

Other free-format messages such as **MT199** or **MT999** may sometimes be used for general bank communication, depending on bank practice. These should not normally be treated as strong trade-finance instruments.

Blocked Funds should not be accepted as equivalent to an LC, SBLC, or BG unless the bank issues a clear, authenticated undertaking and the wording is verified. A simple MT799 confirming blocked funds may demonstrate availability or readiness, but it does not automatically create a payment obligation.

IMPORTANT COMMERCIAL NOTE

Before accepting any banking instrument, IMT and the transaction parties should confirm:

- issuing bank name and jurisdiction;
- whether the bank is acceptable and properly regulated;
- instrument type, amount, expiry, beneficiary, and governing rules;
- whether the instrument is operative, transferable, confirmed, divisible, assignable, or callable, where relevant;
- exact documents required for payment or claim;
- release, cancellation, and refund conditions;
- whether bank-to-bank verification is possible;
- whether the instrument wording matches the SPA.

No banking instrument should be treated as valid until it has been verified through proper banking channels and reviewed against the signed transaction documents.

PRACTICAL REFERENCE

Typical SWIFT formats to expect:

- LC: MT700
- DLC: MT700
- SBLC: MT760
- BG: MT760
- Blocked Funds:
    - commonly MT799 for confirmation, or
    - MT760 if structured as a formal guarantee or SBLC-backed instrument

The MT format alone does not make an instrument acceptable. The issuing bank, instrument wording, enforceability, expiry, claim conditions, beneficiary, governing rules, and consistency with the SPA remain decisive.

DISCLAIMER

This overview is provided for general business information purposes only and does not constitute legal, financial, banking, tax, compliance, or investment advice. Banking instruments, SWIFT message formats, payment obligations, claim conditions, and enforceability may vary depending on the issuing bank, jurisdiction, governing rules, instrument wording, and the signed transaction documents.

IMT does not issue, validate, guarantee, or underwrite any banking instrument. All instruments must be independently verified through proper bank-to-bank channels and reviewed by the relevant parties, their banks, and professional advisers before being accepted or relied upon.

No payment obligation, guarantee, collateral right, commission entitlement, or transaction commitment is created by this overview. The signed SPA and any related written agreements shall prevail over this informational document.