

# Stand-by Letter of Credit: The "middle-Earth" of Trade Finance

Many people regard standby letters of credit as not being proper documentary credits, which is partly justified as they are used in the same way as a bank guarantee but, like commercial credits, they are subject to the international rules and any existing legislation pertaining to documentary credits. The main difference lies in the fact that a commercial credit is expected to be used according to its purpose, that is to act as a means of channelling documents and payment between the Buyer and the Seller. Like a guarantee, a standby is not supposed to be used, unless the parties fail to perform their obligations. That is why it can be defined as a "bank guarantee taking the shape of a documentary credit", being subject to the UCP rules



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