Financing trade: bills of exchange and documentary credits

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The bill of exchange

The basic instrument of trade finance in the nineteenth century was the bill of exchange. English law codified it in the Bills of Exchange Act 1882, drafted by Mackenzie Chalmers, which received royal assent on 18 August 1882. Section 3 of the Act defines a bill as "an unconditional order in writing, addressed by one person to another", signed by the drawer, requiring the drawee to pay a sum certain in money on demand or at a fixed or determinable future time to a specified person or to bearer.[1] The Act codified practice that merchants had developed over centuries. Because the Civil Law Ordinance of 1878, discussed in Chapter III of Part A, applied English mercantile law in the Straits Settlements, the same principles governed bills drawn in Singapore.[2]

A bill drawn by a Singapore exporter on his buyer in London worked as follows. The exporter shipped the goods and drew a bill on the buyer, payable at a stated period after sight, for example three, four or six months. He sold the bill to an exchange bank in Singapore and received dollars at once. The bank sent the bill to its London office, which presented it to the buyer for acceptance. Once accepted, the

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bill could be held to maturity or discounted in the London money market. Contemporary banking manuals noted that bills drawn in India were being shortened from six months' to three months' sight, and Straits currency reports quoted rates for bank bills at four months' sight.[3]

The documentary bill

The exchange banks rarely bought a bill without security. They required the exporter to attach the documents that gave control of the goods: the bill of lading issued by the shipowner, which served as receipt, evidence of the contract of carriage and document of title, together with the invoice and the policy or certificate of marine insurance. A bill accompanied by these documents was called a documentary bill. The bank held the documents until the buyer accepted the bill, on terms known as documents against acceptance, or until he paid it, on terms known as documents against payment.

The documentary bill solved the problem of trust between distant parties. The exporter in Singapore received payment from the bank without waiting for the buyer. The bank had recourse against the exporter if the buyer failed to accept. It also held the goods as security through the bill of lading. The buyer obtained the goods only after accepting or paying. The insurance policy covered the loss of the cargo at sea. Each document performed a legal function. Together they allowed capital to flow across oceans to merchants whom the lender had never met.

The system depended on the agency houses as much as on the banks. The houses arranged the shipment, obtained the bills of lading, placed the insurance and drew the bills. Many of them acted as agents for the shipping lines and insurers whose documents they attached. A single house could therefore stand behind the goods, the transport, the insurance and the bill, with the exchange bank providing the money and the London connection.

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Silver, sterling and exchange risk

The currency of Singapore was a silver dollar, while the currency of London was sterling on a gold standard. Every bill between the two cities therefore carried exchange risk. When the price of silver fell against gold after the 1870s, an exporter who had sold goods for sterling gained, while an importer who owed sterling lost. The banks protected themselves by matching purchases and sales of bills in each direction and by managing their positions between branches.[4] An exchange bank that misjudged the market could lose heavily, as the failures of the 1860s and 1880s showed.

The pegging of the Straits dollar to sterling at two shillings and four pence in 1906, described in Chapter I of this part, removed much of this risk for trade between Singapore and Britain.[5] It did not remove the risk in trade with China, whose currency remained on silver. The exchange banks therefore continued to manage a triangle of currencies, a function that the treasury departments of their modern successors still perform for clients trading between Asia, Europe and the United States.

Advances against goods and remittances

Alongside the bill business, the banks made advances against goods in warehouses and against bullion, as the terms of the Union Bank of Calcutta in 1840 show. These advances allowed merchants to hold stocks of produce until the market was favourable. They also allowed the agency houses to finance their Asian customers indirectly, since the house borrowed from the bank and lent onwards on its own credit.

The banks also carried remittances. The wages and profits that Chinese migrants sent home to Guangdong and Fujian accumulated in Singapore, which became a central collection point for remittance funds from all of Southeast Asia. Small Chinese remittance agents collected the money and used the networks of the British

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and other banks to transfer it, while the foreign banks offered short-term credit to the larger agents to attract the business.[6] Remittances thus became one of the first points at which the exchange banks touched the Asian economy of the port directly.

From documentary bill to documentary credit

In the documentary bill the bank bought the exporter's claim on the buyer. In the documentary credit, which spread in the late nineteenth and early twentieth centuries, a bank undertook its own obligation to pay the exporter against presentation of conforming documents. The exporter no longer depended on the creditworthiness of a distant buyer, because he held the promise of a bank. The buyer's bank, for its part, paid only when the documents showed that goods conforming to the contract had been shipped and insured.

International rules for this instrument came later. The International Chamber of Commerce first promulgated the Uniform Customs and Practice for Documentary Credits in 1933. The current version, UCP 600, was approved by the ICC Banking Commission in Paris on 25 October 2006, came into effect on 1 July 2007 and contains thirty-nine articles.[7] The Geneva volume describes the operation of the documentary credit in the commodity trade of today, including the principle of strict compliance with the documentary conditions.[8] Part H of this book examines its use in Singapore, which became one of the world's principal centres of commodity trade finance.

The law of bills in independent Singapore

The English law of bills survived the end of colonial rule. Singapore's Bills of Exchange Act 1949 is based on the English Act of 1882 and governs bills of exchange, cheques and promissory notes.[9] The paper documents of the colonial trade have since been given electronic equivalents. The Electronic Transactions (Amendment) Act 2021, gazetted on 12 March 2021 and in force from 19 March 2021, adopted the UNCITRAL Model Law on Electronic Transferable Records with modifications. It

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allows bills of exchange, promissory notes and bills of lading to exist as electronic transferable records with the same legal effect as paper.[10] The instruments that the exchange banks bought in the nineteenth century thereby continue in digital form.

Notes

1. Wikipedia, "Bills of Exchange Act 1882" (accessed November 2026): royal assent and commencement on 18 August 1882; drafted by Sir Mackenzie Chalmers; s. 3 definition of a bill of exchange as "An unconditional order in writing addressed by one person to another". ↩
2. Civil Law Ordinance 1878 (Straits Settlements), later s. 5 of the Civil Law Act (Cap. 43); see Chapter III of Part A. ↩
3. On the tenor of Eastern bills (shift from six to three months' sight for Indian bills; Straits rates for bank bills at four months' sight in the 1890s), see the banking manual "Anglo-Indian Banking" (chestofbooks.com) and the Straits Settlements currency reports. ↩
4. Toshio Suzuki, "British Overseas Banks' Activities in the London Financial Market Before the First World War", in *The Development of International Banking in Asia*, Springer, 2020, abstract: the banks invested in bills, Indian Council Bills, bullion, bonds, correspondent deposits and call money "while avoiding exchange and credit risk". ↩
5. Wikipedia, "Straits dollar" (accessed November 2026): in 1906 "the Straits dollar was pegged to two shillings four pence". ↩
6. Ryoichi Hisasue, "Chinese Banking Business in Singapore", pp. 13–14: Singapore "became a central accumulation point for remittance funds throughout Southeast Asia"; private remittance agents "developed relationships with British and other banks to use their remittance networks"; foreign banks "began to provide short-term credit or other financial benefits to major remittance agents". ↩
7. Wikipedia, "Uniform Customs and Practice for Documentary Credits" (accessed November 2026): rules "first promulgated in 1933"; UCP 600

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approved by the ICC Banking Commission in Paris on 25 October 2006; "formally commenced on 1 July 2007"; 39 articles; an updated eUCP came into effect in 2023. ↩

8. Ressos, *Genève, place financière internationale*, partie H, chapitre I, section « Le crédit documentaire », on the documentary credit, the role of confirmation and RUU 600. ↩
9. Bills of Exchange Act 1949 (2020 Rev. Ed.), Singapore Statutes Online. ↩
10. Allen & Gledhill, "Electronic Transactions Act amended on 19 March 2021 to include electronic transferable records": Amendment Act "gazetted on 12 March 2021" and in operation from "19 March 2021"; adoption "with modifications" of the UNCITRAL Model Law on Electronic Transferable Records; coverage of "transferable documents or instruments, such as bills of exchange, promissory notes, and bills of lading". ↩

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