

# Direct guarantee

## Parties and how it works

Direct bank guarantees serve to secure payment and performance obligations.

They're used in both Swiss and cross-border transactions. The guarantee is based on a contract between two business partners.

### Parties

At least three parties are involved in direct guarantees:



#### Principal

Upon the contractual partner's request, it instructs its bank to issue a direct bank guarantee. This guarantees the performance or payment promise.



#### Beneficiary

It can call on the guarantee if the principal does not effect the performance or make the payment – in this case, the guaranteeing bank has to pay.



#### Principal's bank

It issues the guarantee and delivers it to the beneficiary. This can also be carried out by a so-called "advising bank" – as a rule, via the beneficiary's bank.



#### Advising bank

Fourthly, possibly an advising bank. It's called in if the guarantee is not sent directly to the beneficiary, examines the apparent authenticity of the guarantee and passes it on. It takes on no obligation.

## How it works

Let's have a look at how a direct guarantee works, by taking the example of securing performance of an export transaction.

### 1. Underlying transaction

A Swiss supplier and an international buyer conclude a contract over an underlying transaction – for example the purchase of a machine tool. The buyer wants to be sure that the goods will be delivered in accordance with the contract and therefore requests a guarantee.

### 2. Order

The supplier instructs its bank to issue a direct guarantee in the buyer's favor.

### 3. Issue of the guarantee

The supplier's bank issues the guarantee. The supplier is the principal of the guarantee and the buyer is the beneficiary.

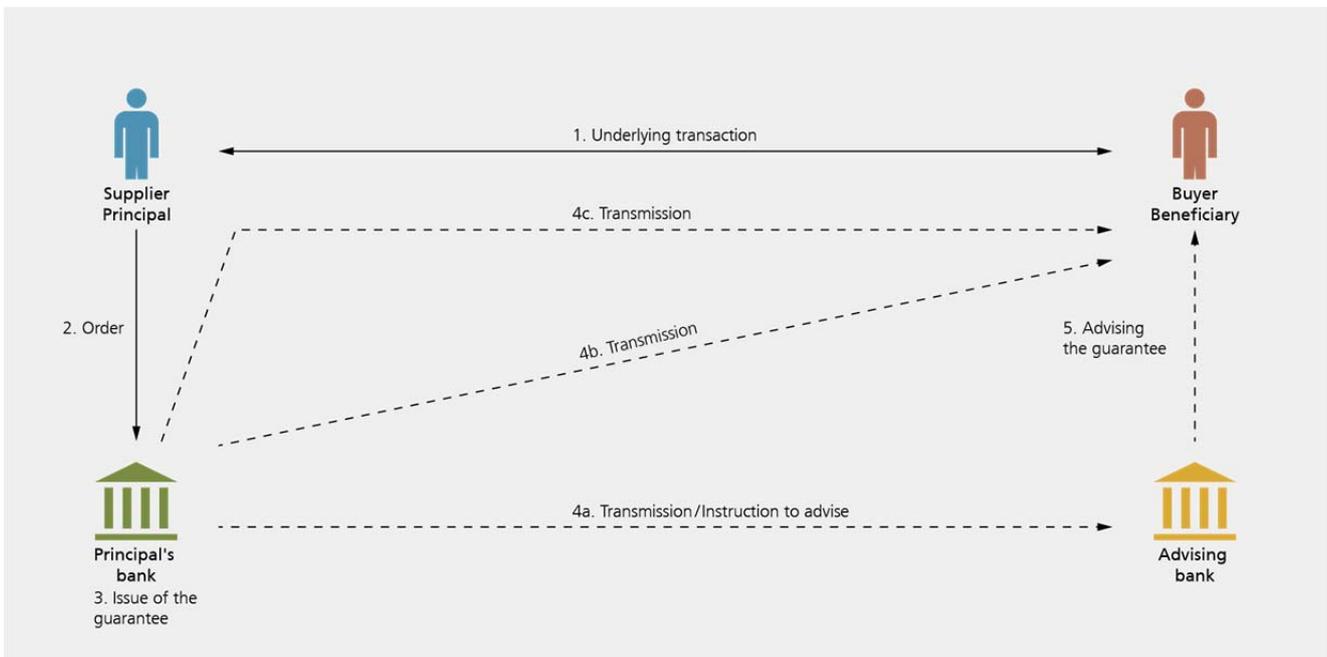
### 4. Transmission/Instruction to advise

The bank transmits the guarantee to a bank at the beneficiary's domicile. Normally, it's transmitted by SWIFT, but the guarantee can also be sent by post or via the principal.

### 5. Advising the guarantee

The advising bank examines the apparent authenticity of the guarantee and passes it on to the beneficiary. This does not put it under any obligation.

The underlying transaction is settled.



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