



Services

Trade Working Capital Viewpoints

Digital Bill – Trade Finance’s New Frontier

For a good part of the last decade, the trade finance industry, led by the major banks, has been marching coherently towards reducing the reliance on paper. Big Techs and Fin Techs have also joined these efforts. While significant headway has been made, some areas continue to be particularly challenging. The Bill of Exchange (BoE) – a cornerstone of trade (and trade finance) – is chief among them.

A group of expert panellists gathered at a recent Citi client event to discuss the pivotal inflection point we find ourselves at. A convergence of technological innovation and landmark legal reform is finally breaking this bottleneck. This article will explore how the long-awaited digitization of the BoE is poised to become the digital keystone that unlocks billions in trapped working capital.

A Tale of Three Trillion

The scale of global trade is immense. In 2023, trade volumes surpassed USD 32 trillion, with expectations to reach USD 35 trillion by 2026. A significant portion of this activity is facilitated by BoEs, according to Sanjeev Ganjoo – Managing Director, Trade & Working Capital Executive Committee. This negotiable instrument – which functions essentially like a post-dated check in trade – is a trusted and universally accepted payment mechanism.

Yet, its physical nature stands in stark contrast to the high-speed, digitized world of modern treasury. As highlighted during the panel discussion, the physical journey of a paper-based BoE – from buyer to seller to the discounting bank and often across multiple international borders – is fraught with friction. This physical “paper-chase” introduces delays, operational risk, and logistical complexity, directly clashing with the corporate treasurer’s urgent need for liquidity and efficiency in a volatile economic environment.

Working Capital Dead Zone of Paper-Based BoEs

The core problem with the paper-based BoE is the value it destroys through inefficiency. Sanjeev Ganjoo explained this friction with startling clarity, cautioning that corporates can lose up to a fortnight of working capital simply due to the time it takes to print, sign, endorse, and physically deliver the BoE before it can be discounted.

This “dead zone” represents a massive, systemic inefficiency. For a single company, it means cash is stuck in transit instead of being deployed for investment, operations, or debt reduction. Multiplied across the entire global trade ecosystem, it potentially represents billions of dollars in trapped liquidity. Furthermore, the physical process is vulnerable to loss, fraud, and human error, adding layers of operational risk to the cash conversion cycle. The industry has long recognized the problem, but a viable, legally-sound solution has remained elusive – until now.

Building Blocks to the Digital Key

The evolution towards a fully digitized BoE has been a transformative journey, fundamentally altering the landscape of trade finance. Citi, with its innovative Citi Digital Bill (CDB) solution, is leading the investment and development in this critical space. Sanjeev Ganjoo described the CDB solution as a highly successful digital initiative, which demonstrates Citi’s foresight, leadership, and focus on empowering clients through innovation. The CDB platform operates by replacing the paper BoE with an irrevocable payment undertaking (IPU) issued by the buyer under contract law. The buyer’s digital acceptance on the platform triggers the creation of a contractual IPU which the seller can then monetize.

This model, Ganjoo noted, processed over USD 10 billion in throughput for Citi in 2025, effectively solving the paper problem and eliminating the c.10-day float. While the asset discounted in the CDB program is an IPU and not a stand-alone negotiable instrument, the operational efficiencies introduced by Citi’s proprietary CDB platform have positioned Citi perfectly to develop a fully digitized and legally enforceable BoE solution, driven by recent changes in the legal foundations that enable the creation and transfer of digital assets.

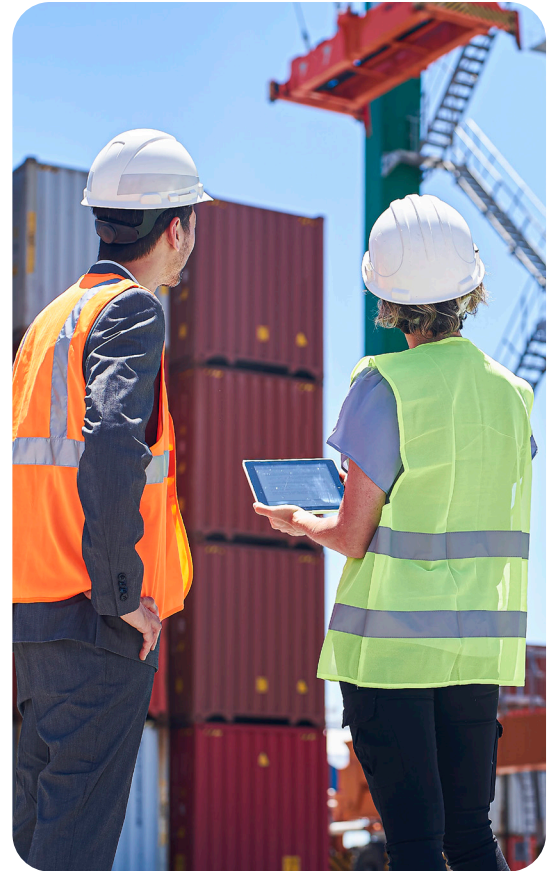
The Legal and Regulatory Breakthrough: The foundation of the digital BoE lies in the legal and regulatory changes that grant electronic trade assets the same or substantially equivalent legal weight as paper-based negotiable instruments. As Sanjeev Ganjoo explained, this breakthrough was catalyzed by two pivotal legislative acts. The UK Electronic Trade Documents Act provided legal recognition to electronic trade documents, aligning their legal standing with traditional paper-based negotiable instruments. Sam Fowler-Holmes, a partner at the law firm Fieldfisher, added that the current challenge for transactions governed under the UK act now involves defining and applying the legislative concepts of a “reliable system” and a “reliable method” to guarantee the integrity of these digital assets and navigating the complexities of cross-border recognition under different legal frameworks.

More recently, New York’s UCC Article 12 Amendment, which Ganjoo highlighted as a game-changer, amended the state’s Uniform Commercial Code to enable functional equivalents of negotiable instruments.

Trade Finance Community - Call to Action!

The foundational shift from paper-based negotiable instruments to legally recognized digital trade assets requires corporates to be proactive. The transition will not be instantaneous, but first-mover advantages will be significant. To navigate this evolution effectively:

1. **Stay Abreast of Industry Initiatives:** The market is actively working to establish standards and interoperable platforms to ensure these new digital instruments can be created and discounted efficiently. Keep a close eye on emerging industry consortia and pilot programs, as early participation or adoption could provide a significant competitive edge in working capital optimization.
2. **Engage Market Experts:** Immediately open a dialogue with your trade finance banks, acting on the roadmap laid out by market experts. Inquire about their plans for adopting digital discounting solutions under the new legal frameworks and understand the technology and interface requirements for these new solutions. Citi occasionally organizes thought leadership events that can offer valuable insights and networking opportunities in this evolving landscape to clients,
3. **Evaluate Internal Systems and Processes:** While a bank may provide the core platform to enable digital discounting transactions, your own internal ERP and treasury management systems will need to be ready to integrate with the bank’s platform. Begin evaluating your internal readiness for this crucial digital hand-off.
4. **Prepare!:** By actively engaging with industry developments, collaborating with your banking partners, and ensuring your internal systems are robust and adaptable, you can strategically position your organization to harness the full potential of digital trade finance and secure a competitive advantage in a more fluid future.



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