

ICC
BANKING
COMMISSION

GUIDING
INTERNATIONAL
BANKING PRACTICE

DRIVING
CHANGE IN
TRADE FINANCE

2014 ICC TRADE REGISTER REPORT SUMMARY

GLOBAL RISKS IN TRADE FINANCE

[Introduction >](#)

[Market Trends >](#)

[Regulatory Update >](#)

[Evolution of the ICC Trade Register >](#)

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This ICC report would not have been possible without the pathfinding work done during the global financial crisis of 2007-2009 by the ICC Banking Commission and various policy makers. We would like to thank the Asian Development Bank and former WTO Director General Pascal Lamy for providing the initial impetus to create a consolidated trade finance database hosted by ICC. In particular, the WTO Expert Group on Trade Finance became an important forum during the crisis, holding regular meetings with partners from commercial banks, the Berne Union, regional development banks and other multilateral export credit and specialised agencies. This group, of which ICC was a member, was instrumental in understanding the causes of the shortage of trade finance and in devising cooperative solutions through which public institutions could help private- sector financial institutions shoulder the risk of operating in an unstable financial environment. We would like to thank Steven Beck of the Asian Development Bank for funding the initial phase of the ICC Register Project. Finally, we would like to thank Alexander Malaket and Ashutosh Kumar, Co-Chairs, ICC Trade Register project, for having led the ICC Trade Register activity and the Oliver Wyman team for providing the analysis in this report.

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Barclays

BMO Financial Group

BNP Paribas

CIBC

Citibank

Commerzbank

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HSBC

KfW

ING

JP Morgan Chase

National Australia Bank

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Standard Chartered Bank

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IN THIS REPORT

[Foreword >](#)

SUMMARY REVIEW

[Message from the Co-Chairs >](#)

[Executive Summary >](#)

THE REPORT

[Introduction >](#)

[Market Trends >](#)

[Regulatory Update >](#)

LOOKING AHEAD

[Evolution of the ICC Trade Register Project >](#)

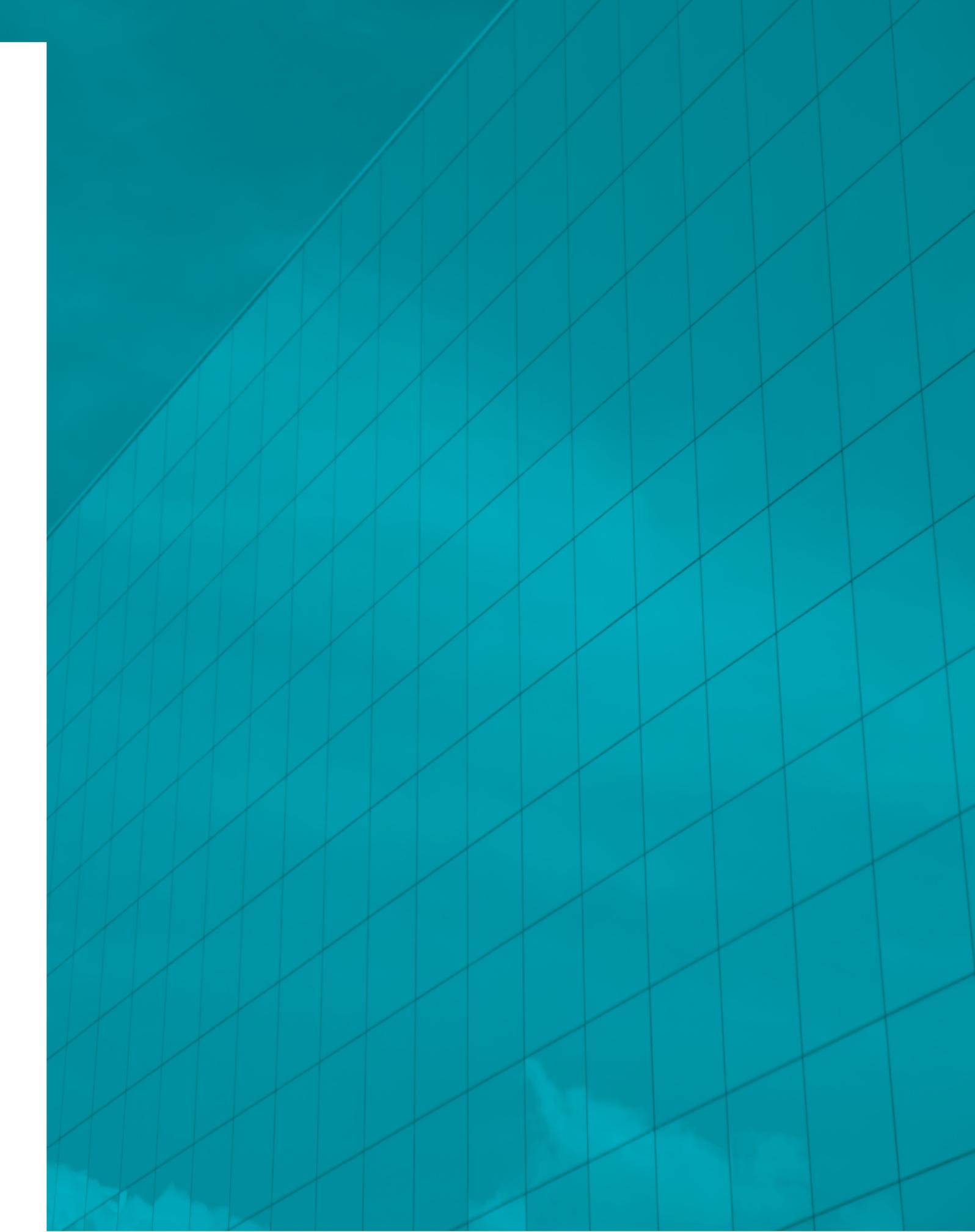
[Conclusions >](#)

ANNEX

[APPENDIX A: Glossary of key terms >](#)

[APPENDIX B: Overview of short-term trade finance products >](#)

[List of Acronyms >](#)



FOREWORD

Across every sector of the trade finance industry, decision-makers are struggling with the complexity and pace of change in the current environment. The more complex the system, the greater the risk of vulnerability and breakdown. More than ever, the industry needs to understand the true nature of risks underlying the business.

We are pleased to present the ICC flagship publication *ICC Trade Register Report 2014*. The report, the fourth in a series launched in 2010, is produced from the ICC Trade Register, a high-volume, high-velocity data set containing multi-year trade finance data reflecting more than 4.5 million transactions totaling an exposure in excess of USD 2.4 trillion in 2014.

By consolidating the methodologies and processes for collecting and analyzing data over the years, the *ICC Trade Register Report* series has become one of the world's leading analytical instruments on global risks for the industry. Again this year, the report identifies risks across a wide range of trade finance products and markets, offering leaders from business, government and multilateral institutions a tool to better understand the risks.

Nobody claims that the ICC Trade Register and its annual publication are beyond reproach. Much can be improved and much remains to be done to add more partner banks to the project, collect more granular data covering new countries, and improve the robustness of our methodologies. When we take a long view, however, it is plain to see that thanks to the commitment and vision of the ICC Banking Commission leadership and members, the *ICC Trade Register Report* series has been one of the most successful examples ever of a major industry undertaking to engage a constructive dialogue with policy-makers and regulators based on robust analytics providing evidence on business risks.

As global trade is poised to grow substantially, the demand for further data to provide a complete risk profile of the

industry will only increase over the coming years. This need is made all the more urgent since a rebound in world trade is essential to propel the continued recovery of the global economy.

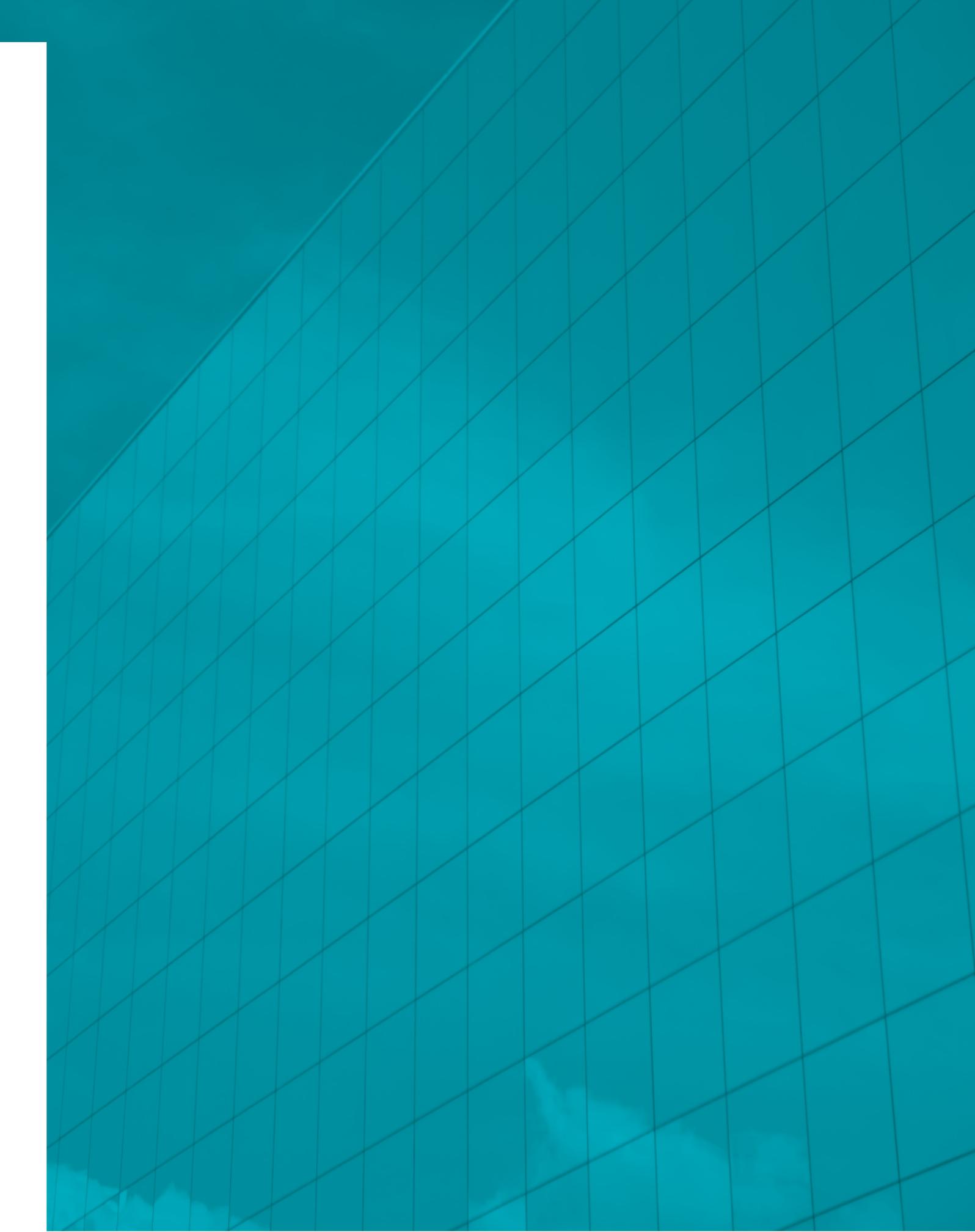
ICC and the trade finance industry have made a commitment to provide risk data on a regular basis to improve the understanding of the environment and demonstrate that trade finance makes a strong contribution to economic recovery and growth. At a time when economic conditions are grim and growth elusive, it is good to remind ourselves of the need to preserve the 83-year old ICC Banking Commission tradition of cooperation, openness and standardization of market practices.

We would like to thank the participating banks and all partners of the ICC Trade Register project for their continuous support. We are most grateful to the Co-Chairs of the ICC Trade Register project, Alexander Malaket and Ashutosh Kumar. Our appreciation also goes to the Oliver Wyman team, in charge of collecting and analyzing the data.

We hope you find the report informative and insightful, and that it will prove to be a source of new perspectives. We look forward to your comments and feedback, as our aim is to enhance the quality and impact of this report every year and ensure its continuing contribution in a changing and uncertain world.



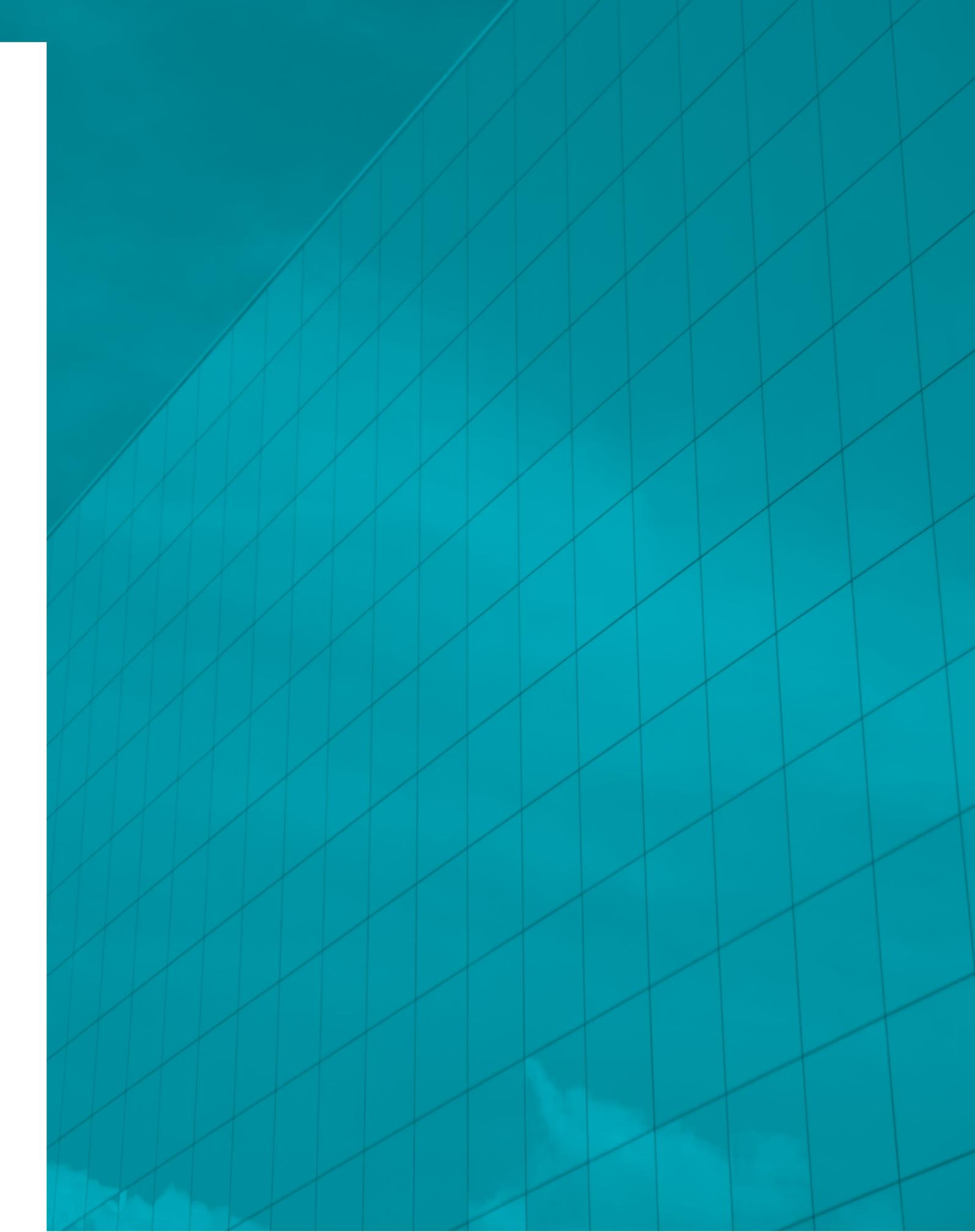
THIERRY SÉNÉCHAL
EXECUTIVE SECRETARY, ICC BANKING COMMISSION



SUMMARY REVIEW

[Message from the Co-chairs >](#)

[Executive Summary >](#)



MESSAGE FROM THE CO-CHAIRS OF THE ICC TRADE REGISTER PROJECT

The ICC Trade Register, initially conceived and funded by the Asian Development Bank, has represented an important step forward in data-gathering and objective analysis related to the risk profile of international trade finance.

One of the triggers leading to the creation of the ICC Trade Register was a perceived insufficiency of trade finance at the height of the global financial crisis: a situation that political and business leaders, regulators and international institutions will take decisive measures to avoid in future. The Register has been credited with advancing both analytics and advocacy related to trade finance and has been acknowledged in various circles for making a direct contribution to the mitigation of unintended adverse consequences on trade finance arising from regulatory requirements.

This is notable progress and impact given that the first findings from the ICC Trade Register were published just four years ago; members of the Project Team, participating banks and the ICC Banking Commission all recognize however that the Register is in a state of ongoing development and evolution, from its most fundamental elements, such as data definition and collection, to its most strategic dimensions related to policy development.

The original objectives remain relevant today, and we believe there is additional opportunity to extend the scope and value proposition around data-gathering and analytics linked to trade finance, to further advance an informed, constructive and rigorous dialogue on the financing of international commerce, its impact on economic value-creation and growth, and on critical areas like international development. Additionally, the need to assure access to timely and equitably-priced

trade finance in future periods of crisis is one underpinning driver for continued focus on the original objectives of the Project. It is critical that trade and supply chain finance effectively serve and enable cross-border trade flows even in times of crisis, on an inclusive basis, across developed and developing markets, for multinationals and small and medium-sized enterprises alike.

The ICC Banking Commission and our partners in the ICC Trade Register project, Oliver Wyman (data gathering and analytics) and Coastline Solutions (ICC Trade Register Intranet site design) have been entrusted with the oversight and execution of the Project. However, it is the engagement and commitment of participating banks that allow us to provide a meaningful view of the nature of trade finance to a global audience of stakeholders at a time when trade remains a matter of high priority for policymakers, regulators and for business and political leaders around the world.

The commitment of participating banks cannot be understated, and merits acknowledgment in these pages: our participating banks invest significant time, resources and effort to submit data that is not always readily accessible, and have worked very closely together – and with ICC and project team members, to present the following findings and analysis which we believe to be significantly improved both in terms of data quality and in terms of the robustness and value of the resulting analysis and conclusions.

The 2014 *ICC Trade Register Report* is the result of professional input, analysis and peer review involving senior practitioners, subject matter specialists and senior advisors from around the globe, following a consultative and transparent process of data-gathering and analysis that has been the subject of multiple reviews, including comments provided by selected external reviewers with expertise connected to trade and trade finance. Input has also been invited and received, from the most senior levels of the ICC Banking Commission and from executive sponsors – often global business heads – at the participating financial institutions.

The ICC Trade Register has clearly evolved in terms of the quality of data and resulting analytics, and in terms of the number of leading trade banks participating in the Register, and thus the proportion of trade business captured in the data. This latest version of the *ICC Trade Register Report* will reflect greater methodological alignment with the approach taken by regulatory authorities, and higher-quality data underpinning the analysis and conclusions documented here. That said, we recognize the imperative to continue to improve the Register and to facilitate a better understanding of the trade finance business among non-practitioners, at least in part by making the data, methodology and analytics more comparable, for example, to other asset classes of interest to various investor groups, among other interested parties.

Accordingly, and with the specific intention of extending the value proposition of the ICC Trade Register and the analysis which flows from it, we have sought and obtained approval in principle from the ICC Banking Commission Executive Committee and from the Advisory Board, to improve the approach and methodology currently in use. More importantly, we have also secured support to expand the scope of the Register, developing additional modules of data (beyond the current focus on risk and default) and in so doing, to address the

need for a wider, objective and data-based analysis of other aspects of trade and supply chain finance. In addition, and seeking to enhance the original proposition of the ICC Trade Register, we will work to be responsive to current member banks, several of them having asked about the eventual usability of ICC Trade Register Data for internal risk modeling purposes, linked to the AIRB element of the Basel Accords. The data definition and analytical methodology underpinning this year's *ICC Trade Register Report* aligns more closely with the methodology of the Basel Committee, and thus takes us a step closer to enabling the use of the data for internal risk modeling purposes.

The latest Banking Commission meeting held in April 2014 provided an excellent opportunity to take significant steps forward in exploring new partnerships and strategic alliances that will, we believe, contribute to an even greater evolution of the ICC Trade Register in the coming years. The alliances under consideration will, subject to the agreement of participating banks and other stakeholders, facilitate access to important methodologies, new members and data points that extend beyond the current focus of the ICC Trade Register on traditional trade finance (short, medium and long-term), to encompass factoring, supply chain finance and other variations of trade-related financing.

The original objective of the ICC Trade Register, to facilitate informed, objective and effective dialogue on the nature of trade finance and on the appropriate regulatory treatment of this critical enabler of international commercial activity, remains relevant today, even as we work to broaden the discussion beyond purely regulatory matters. Areas of planned engagement include attraction of capacity and capital to support additional trade financing, which necessitates effective education, dialogue and interaction with potential investors, as well as direct dialogue on trade finance and its linkage to international development,

which demands the ability to engage with international institutions on matters related to development and poverty reduction, economic growth and facilitating trade for micro-enterprises and unbanked communities around the world.

Lessons learnt thus far in the development and management of the ICC Trade Register, and in referencing other perhaps more mature data-gathering and analysis efforts of a similar nature, will be critical in extending the value and impact of the Register beyond its originally (and necessarily) narrow focus, and very much in alignment with the broader vision of the International Chamber of Commerce, with the needs of the trade finance industry globally, and the clients we serve.

For the moment however, we take this opportunity to extend our appreciation to member banks for their ongoing support of and commitment to the ICC Trade Register project, and to recognize the efforts of the ICC Trade Register Project Team and

Steering Committee in producing what we believe is an important – and materially improved – *ICC Trade Register Report* for 2014.

We invite your comments and feedback on the *ICC Trade Register Report*, and undertake to provide updates on the next data-gathering exercise which is already underway, as well as on the planned evolution of the ICC Trade Register. As always, we will continue to work actively to attract new members to the ICC Trade Register, in an effort to assure the most comprehensive data collection exercise possible, and as we did this year with the addition of several illustrative case studies, we will seek ways to make the *ICC Trade Register Report* even richer and more valuable as one of the flagship publications of the ICC Banking Commission.



ALEXANDER MALAKET
CO-CHAIR, ICC TRADE REGISTER PROJECT



ASHUTOSH KUMAR
CO-CHAIR, ICC TRADE REGISTER PROJECT

EXECUTIVE SUMMARY

This report, produced by the International Chamber of Commerce's Banking Commission in collaboration with Oliver Wyman, presents a view of the risk profile of the Trade and Export Finance industry, globally.

It is based upon a representative set of both Short and Medium to Long-term Trade and Export Finance transactions globally, contributed by 24 Trade and Export Finance banks (reflecting more than 4.5 million transactions totalling an exposure in excess of USD 2.4 trillion), and the analysis derived from that robust, objective data set.

The objectives of this report are:

- To provide an objective and transparent view of the risk profile and characteristics of Trade and Export Finance (Short, Medium and Long-term) using a rich base of industry data, with the intention of contributing to informed policy and regulatory decisions relative to Trade and Export Finance
- To advance the understanding of Trade and Export Finance, its importance to global trade and the highly effective global risk mitigation capability of Trade and Export Finance products to a broad audience of interested parties
- To promote understanding of the international regulations affecting bank capital requirements for Trade and Export Finance, and their history and objectives, in order to create a uniform global view of this industry as part of the Banking Commission's commitment to effective and collaborative advocacy

The establishment and build-out of the ICC Trade Register was set as a multi-year process and this year's report on the results of the ICC Trade Register indeed represents a point-in-time perspective on the evolution of the ICC Trade Register to an increasingly comprehensive, globally consistent data set that is in a state of ongoing improvement and is solidly representative of the business of trade finance, comprehensive, globally consistent, and hence representative, data set. As the ICC Trade Register's main

objective is to provide a universally accepted source of risk data on Trade and Export Finance, the data itself and methodology need to be fully aligned with the global standards in risk measurement and risk management as defined by the Basel Committee. For this year's report it was possible to make a significant step forward in achieving this objective:

Probability of Default (PD) on an obligor level were reported and compared with transaction level default rates.

Loss Given Default (LGD) figures per product group were calculated based on transaction level information.

Insight into Exposure at Default (EAD) were increased through case study examples, such as a study showing product "lifecycle" data. This allows insight into process, recovery and payment activities in the life of a transaction. For EAD, the focus of next year's study and build-out of the ICC Trade Register will be to move from case study examples to a statistically robust data set.

As a result, Expected Loss figures can be reported which are comparable with other portfolios. For this an assumption of EAD = 100% had to be taken, i.e. assuming that the full notional would be at risk for a bank in the case of a default and not considering for example expiries and non-compliant documentation, even though preliminary figures from the ICC Trade Register and the experience of many trade professionals suggest significantly lower conversion rates for some short-term products. As a result, the Expected Loss results should be interpreted as very conservative and would be expected to decline in line with a statistically robust reduction in EAD.

This step forward in terms of further developing and aligning the methodology, however, comes at a cost: some banks were

not able to provide historical data in the required format due to limitations related to bank systems and accessibility of data in the required format readily and as a result the number of data points at disposal for analysis was significantly smaller than in last year's report.

Despite these temporary limitations, the data is considered to be both robust and appropriately representative of market conditions, and the rigorous methodology and analytical techniques applied to the data, provide assurance of the quality of key conclusions and observations recorded in the following pages.

With the improved alignment to Basel, the analysis demonstrates the low risk profile of Short Term Trade Finance. Short-term products have a number of risk characteristics as follows:

Low default rate across all products – both at customer and transaction level, in fact only reaching one tenth of comparable Moody's default rates, with the customer default rate being higher than the transaction default rates, hence strongly reinforcing the hypothesis that Trade Finance products have a relatively low likelihood of default.

Short maturity – most products have a shorter tenor than 180 days, except for Standby L/Cs and guarantees which have a longer tenor on average.

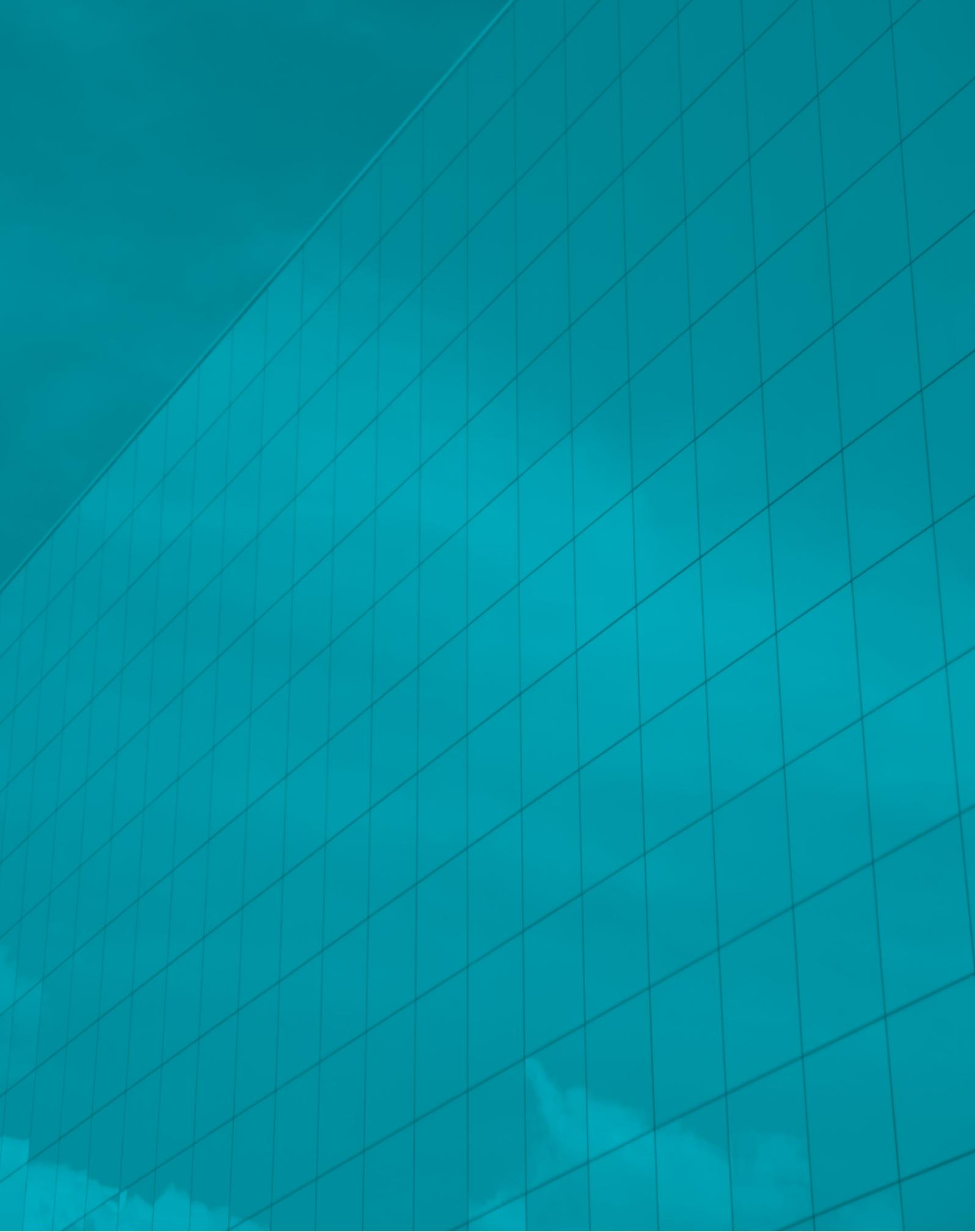
Event driven – the default event depends on the outcome of other preceding events – or the lack thereof – in the course of processing a Trade Finance transaction, which in the example of L/Cs is the presentation of the transaction documents and these being approved, which reduces the actual proportion on which payments are made, hence leads to a relatively low Loss Given Default.

Low overall transaction-level loss rate – taking into account the default rate, EAD and LGD on every transaction, the average total customer level Expected Loss for Trade Finance products is at least ten times lower than the expected loss of the Moody's rated universe over the 2008-2012 period.

A similar conclusion can be drawn for Medium to Long-term (MLT) Trade Finance. MLT Trade Finance products in the Trade Register are those issued by an Export Credit Agency (ECA) which are backed by the sovereign of an OECD country.ⁱ Thus, in the event of default, most banks should receive recoveries from the ECA at the coverage percentage agreed, as well as potential recoveries from the borrower. As a result, the expectation is that losses will be low unless the ECA itself defaults, which is typically considered unlikely as the ECAs have investment grade ratings and, for the purpose of the Trade Register, we have only included transactions where an ECA has provided either state-backed Guarantee or Insurance to the financing bank. Hence:

- While the default rate for MLT transactions is relatively low, the ECA coverage contributes directly to reducing the risk profile of MLT transactions.
- This can be demonstrated for cases where the ECA recovery has been completed or the ECA has accelerated payment - then the majority of amounts falling due have been recovered.
- For Basel LGD purposes recoveries need to be discounted and cost for recovery included, which leads to an LGD of -5%.ⁱⁱ
- The overall result, then is an Expected Loss of between approximately 0.02%, which suggests, as with the short-term results, the observed EL for MLT Trade Finance products to be much lower than the EL expected for 'vanilla' corporate lending, reflecting the characteristics of medium and long-term trade finance, including the benefits of ECA-based risk mitigation.

While the 2014 ICC Trade Register has made significant advancements since last year, the effort to drive further enhancements and to improve the methodology is continuing. This year, the ICC Trade Register Project Team has undertaken a review and revision of the strategic plan for the Register. The high-level objective is to enhance and reinforce the default data-gathering and related analytics which are at the core of the Register, while concurrently seeking ways to expand the scope of the Register.ⁱⁱⁱ



THE SUMMARY REPORT

Market Trends & Regulatory Updates

- ▶ Market Trends
 - ▶ Regulatory Updates
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1. INTRODUCTION

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The objectives of this report are:

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1.1 Overview of Trade and Export Finance

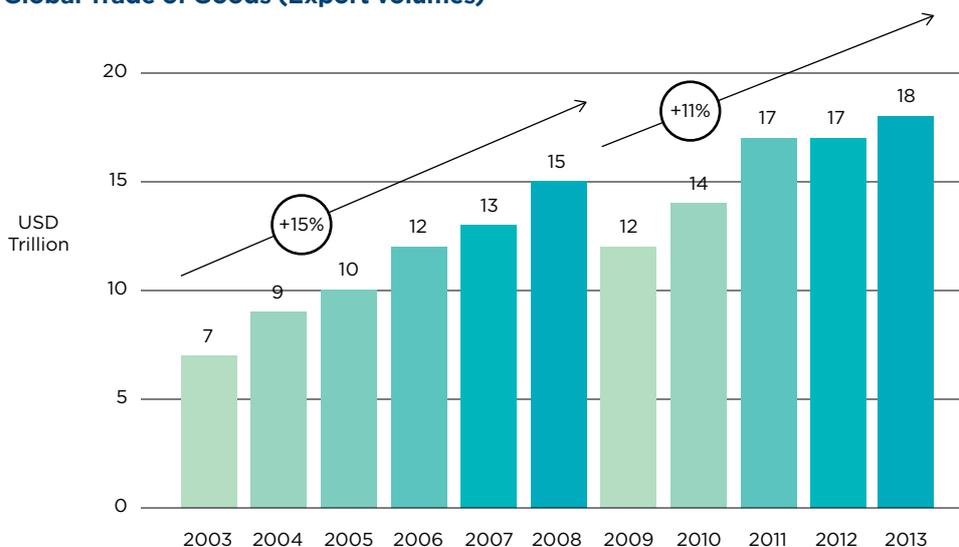
Overview of international trade

Trade is vital to global economic growth and the creation of economic value. Companies of all sizes, and in markets across the world, are looking at opportunities in international markets. Traditional distinctions between import, export and foreign investment activity are no longer as relevant, as international commercial activity has become far more integrated. Just as the benefits of engaging in international commerce are substantial, the risks of venturing beyond domestic markets are commensurately high: the products, mechanisms and solutions developed in Trade and Supply Chain Finance have proven to be invaluable in assisting business of all sizes to succeed in foreign markets, while effectively mitigating a wide range of risks associated with international trade.

With the exception of a slowdown in the wake of the Global Financial Crisis and until recently, global trade volumes have seen a steady increase, and have historically outpaced global GDP growth. In 2012-2013, global export volumes remained largely flat at ~USD 18.5 trillion (2% year on year increase) and are expected to grow by 5% per annum during 2014-15.¹

The largest trade flows in nominal terms continue to have one leg in OECD countries, but strong growth is observed in trade across emerging economies. For example, the three largest bilateral trade corridors include US imports from China, Canada and Mexico with 2012 import volumes

**FIGURE 1:
Global Trade of Goods (Export volumes)**



Source: World Trade Organization (WTO)

ranging from USD 444 billion – USD 280 billion with 2009-12 compound annual growth rates (CAGR) of 13-16%. Some of the fastest growing bilateral corridors (of material size) include exports from Iraq to China and India with total volumes of USD 13 billion and USD 20 billion respectively, with 2009-12 CAGRs in excess of 50%.²

Global trade flows have been materially reshaped, with intra-regional trade growing in importance in Asia, Africa and the Middle East. Also, exporters across the globe are forced to seek alternate markets while the United States and the European Union, still by far the largest consumer economies on the planet, continue to wrestle with their own respective post-crisis challenges. There is a critical mass of activity, both import and export, centring on Asia and including influential markets like China and India, but increasingly extending to markets like Indonesia, Malaysia and Vietnam, as well as frontier markets like Myanmar.

Trade and Export Finance mechanisms have evolved to be able to support the needs of importers and exporters pursuing opportunities in the most challenging markets, including the need for effective mitigation of risk that enables trade flows that would not take place, were it not for these mechanisms.

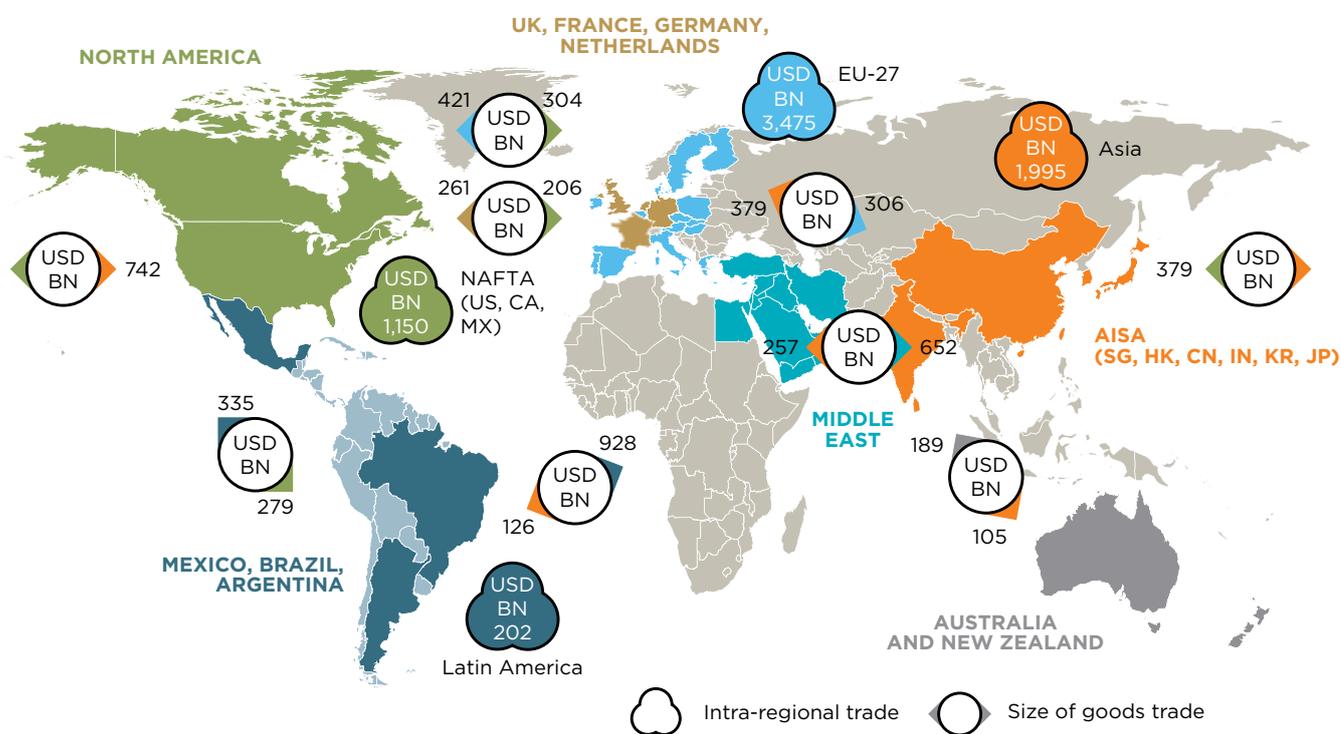
Characteristics of trade transactions

Trade and Export Finance can be described as being fundamentally about four things:

- Enabling secure and timely payment across borders
- Providing liquidity and financing for the importer, the exporter or both
- Enabling effective mitigation of risk
- Facilitating a flow of information about the physical and/or financial flows in a transaction

Fundamentally trade transactions enable secure and timely payments of exporters. Exporters will typically wish to be paid as soon as possible,

FIGURE 2:
International trade in select corridors (2012)



Source: International Trade Centre (ITC); United Nations Conference on Trade and Development (UNCTAD); World Trade Organization (WTO) and UN COMTRADE

but may be compelled to offer attractive settlement terms (delayed payment) to buyers as a competitive strategy. In such circumstances, they may seek financing until the agreed payment is received. Importers may require financing to be able to purchase goods for sale (or components for production), borrowing upfront, and repaying the loan based on the sale of the goods purchased or produced.

Financing obtained on the basis of trade flows, and through the mechanisms of traditional Trade and Export Finance in particular, such as Documentary Letters of Credit, may be less expensive than other forms of borrowing, and in such circumstances, a business engaged in international commerce may choose to access financing simply on the basis of favourable relative cost. The needs of importers and exporters can vary significantly, and Trade and Export Finance provides a range of instruments, products and solutions aimed at facilitating access to a variety of financing options.

Additionally, all trade transactions have an inherent element of risk, which is assumed to varying degrees by one or both trading partners (or members of a global supply chain) depending on the agreed terms of trade and the payment/settlement mechanism that is selected. A Confirmed Documentary Credit is widely acknowledged to provide the most balanced protection of risk between buyer and seller. Moreover, it is notable that effective risk mitigation in Trade and Export Finance often involves Trade and Export Finance banks or other providers working in partnership with ECAs, international financial institutions or private risk insurers to

provide the appropriate level of mitigation for a particular market, trading relationship or individual counterparty, such as a foreign bank.

There are numerous risks involved in the conduct of international trade, including country and political risk, bank risk, commercial/counterparty risk, operational risks and foreign currency risk, among others. Political instability leading to war, economic instability leading to sovereign crises, the risk of non-payment by an importer, or non-performance by an exporter, or the risk of unfavourable currency fluctuations that erase in cases already thin profit margins: all are encountered in the conduct of international trade, and all can be effectively mitigated through Trade and Export Finance.

If the seller has extended a 30-day payment period, the seller runs the risk that the buyer defaults during this period whilst retaining the goods. If the buyer is obligated to pay in advance of receiving the goods, the buyer runs the risk that the seller does not ship the goods in the quantity or quality agreed upfront or that the delivered goods do not meet expectations in terms of product performance. These are examples of idiosyncratic risks – or risks pertaining to a specific trade transaction and the involved parties. Well-selected and well-structured Trade and Export Finance solutions can assist each trading party to manage the risks it assumes and the financing it extends in the most efficient way. The way in which this is done may need to be dynamic in the sense that the requirements for risk mitigation will evolve as the trade relationship between buyer and seller matures. Additionally, as outlined above, there may be other changes, including changes to country-specific and broader macroeconomic conditions, which can affect the trade relationship.

The role of banks in global trade and export finance

The majority of Trade and Export Finance globally is provided by the banking sector, typically the leading global financial institutions involved in international banking activity. The banks' value proposition extends across all aspects of Trade and Export Finance, with the top providers complementing their product and solution portfolios with advisory support to their clients.

In the context of traditional Trade and Export Finance products, the banks provide value in several ways. Documentary Letters of Credit and the related transaction flows can be used to illustrate the ways in which banks support the conduct of international trade. Importers and exporters can choose to transact directly, without benefit of bank support – as has been observed in the increased prevalence of Open Account trade. In the textbook scenario, importers and exporters are advised to seek assistance when involved in high-risk markets, or in the early stages of a trading relationship before trust is fully established.

Risk transfer/credit enhancement – Banks, in the course of providing Trade and Export Finance solutions like Documentary Credits, must act as independent parties with recognised legal obligations, but also act partly in support of their respective clients. Instead of an exporter relying on the goodwill of the importer to make the payment that has been promised, the use of a Letter of Credit allows the exporter to rely on what should be a much more robust payment undertaking on the part of the Issuing Bank.

This shifting of risk from the importer to the Issuing Bank is referred to as “credit enhancement” and provides comfort to the exporter.

Documentary operations – The use of a Letter of Credit also involves banks engaging in verification of documents and providing a determination of whether the exporter has complied with Letter of Credit terms, and should therefore be paid. This verification process is also part of the value proposition provided by banks in the context of Trade and Export Finance.

Financing – Documentary Letters of Credit may be “sight” or “term” credits, the former allowing for payment upon determination that documents are compliant, and the latter providing for payment at a future date agreed between importer and exporter and specified in the terms of the credit. Term credits may involve payment 30 days after “sight” of compliant documents by the banks, or 120 days after shipment of the goods, or any number of similar variations. In such cases, banks may offer to pay the exporter immediately in consideration of payment of fees and interest.

Documentary Credits offer a range of features that can be leveraged to meet the needs of trading partners under a wide range of conditions. These and other instruments can be used in the context of Short-term Trade Finance, or in Medium to Long-term transactions that may be supported by Export Credit Agencies (ECA) in risk mitigation and/or financing.

The nature of Trade and Export Finance transactions is such that banks providing services to importers and exporters are able to do so with highly effective mitigation of their own risks and consequently comparably low default and loss rates, as demonstrated through the ICC Trade Register.

1.2 Scope of the report

In this report, we distinguish “Short-term” Trade Finance products from Medium to Long-term ECA-backed export finance products. We define ‘Short-term’ products as all instruments facilitating trade transactions with a maturity of typically less than one year and with a clear link to a specific trade transaction. However, it should be noted that particularly in the context of Standby Letters of Credit and Guarantees, these can have maturities in excess of one year. For the purpose of the ICC Trade Register, we have only included those Medium and Long term transactions where an ECA has provided cover for commercial and political risk to the bank financing the transaction.

In scope ‘Short term’ Trade Finance products

Short-term Trade Finance instruments are traditionally considered highly liquid products given their comparably short maturity, the relationship to a specific transaction and clearly identified underlying flow of goods or services. Documentary Credits deal with goods, services or performance to which the documents relate. Furthermore, at least one bank, but in many cases several banks, are involved in transforming what was a corporate counterparty risk into a financial institution (FI) counterparty risk, as described earlier in referencing the credit enhancement role of banks in Trade Finance. In the following sections we outline the main characteristics of the most commonly used Short-term Trade Finance instruments in scope of this report.

Documentary Letters of Credit (L/C): Issued (Import) L/Cs

(for simplicity referred to as 'Import L/Cs' throughout this report)

Key characteristics:

- Commercial instrument issued by a bank on behalf of an importer/buyer in favour of an exporter/seller, representing an irrevocable undertaking to make payment upon presentation of an agreed set of documents (at 'sight' of documents or after a deferred period) in compliance with the terms and conditions of the Letter of Credit
- Risk to the exporter/seller of non-payment is reduced, as banks are typically lower risk than the importing counterparty
- Typically involves a process of verification of documents against letter of credit terms and conditions, and a payment based on a determination of full compliance (or a process of negotiation between buyer and seller in the event of non-compliance)
- Represents a contingent obligation for the issuing bank until compliant documents are presented
- The issuing bank extends payment upon presentation of compliant documents (unless otherwise specified), typically withdrawing the funds directly from the importer's other accounts with the bank or by providing specific short-term financing to the importer
- Only in the event compliant documentation is presented and there is insufficient funds in the importers accounts, the bank itself has to pay the exporter and reclaim its money from the importer
- NB: The same credit can be viewed as either an import or an export L/C. For the applicant (importer or buyer) it is an import L/C, whereas for the beneficiary (exporter or seller) it is an export L/C. The issuing bank is the same in both instances.

Documentary Letters of Credit (L/C): Confirmed (Export) L/Cs

(for simplicity referred to as 'Export L/Cs' throughout this report)

Key characteristics:

- In the event the exporter is not fully confident of the standing of the Issuing Bank, or has concerns about the stability of the importing market, the exporter may request that a confirmation be added to the Letter of Credit, creating a separate, legally-binding payment undertaking from the Confirming Bank in favour of the exporter
- Under a Confirmed (Export) L/C a bank typically in the same country as the beneficiary (acting as Confirming Bank) adds its additional commitment/confirmation to that of the Issuing Bank to honour a compliant document presentation in accordance with the terms and conditions of the L/C
- Hence, the Confirming Bank assumes the credit and country risk associated with the issuing bank
- As such, a Confirmed L/C offers the highest degree of protection to the exporter/seller as the confirming bank generally has more favourable risk-characteristics to the exporter than the issuing bank.

Loans for Export

Key characteristics:

- Collective term for a range of financing instruments, typically collateralised by underlying L/Cs (or other documentation)
- Disburse payment to the exporter in the form of a bank loan; increases liquidity to the exporter and enables trade
- The bank extending the Export Loan can be subject to either corporate or bank credit risk depending upon the instrument or mechanism used to enable the export loan.

Loans for Import

Key characteristics:

- Techniques and structures by which a bank advances a loan to an importer; allow the importer to pay for the goods and to cover the period between receiving goods and selling them on
- Example structures include:
 - Clean Import Loans, in which the bank advances cash to the importer upon presentation of supplier invoices and evidence of shipment
 - Exchange of goods under Trust Receipts, in which the importer uses the goods while the bank retains ownership until the importer settles the loan
- The bank extending the Import Loan is in most cases exposed to corporate credit risk. However, in some instances banks may become exposed to bank risk, for example in the event they provide financing to other financial institutions that in turn extend trade financing to their customers.

Performance Guarantees and Performance Standby Letters of Credit

(for simplicity referred to as 'Performance Guarantees' throughout this report)

Key characteristics:

- Performance Guarantees or Performance Standby L/Cs are instruments guaranteeing the applicant's/principal's obligation to deliver and perform according to a given contract
 - Written by a bank on behalf of a client and used as a 'payment of last resort' should the client fail to fulfil a contractual obligation to a third party
 - Typically used where commercial relationships extend into the medium or long term, such as arrangements including services beyond delivery
- Standby L/Cs and Guarantees are used for similar purposes. Other legal forms of Guarantees issued by banks include Bonds and (letters of) Guarantee
- These instruments mitigate any distrust between transacting parties and may reduce cash outlay in situations where cash deposits are required (though typically, the applicant requesting the Standby or Guarantee must have a line of credit or funds on deposit to cover the value of the credit or Guarantee)
- Typically remain undrawn unless an exporter fails to deliver (in the event the applicant is an exporter) or the importer defaults (in the event the applicant is an importer)
- Similar to commercial L/Cs, represents a contingent obligation for the bank until the Guarantee is drawn. In this case the bank would seek to withdraw funds from the client's accounts in the first instance.

In-scope 'Medium to Long term ECA backed' products

Export Credit Agencies (ECAs) are private or governmental institutions, representing the full faith and credit of their respective Sovereign, that are mandated to support export activity through a suite of products or services most commonly centred around financing or risk mitigation in the form of insurance cover or the provision of guarantees aimed at mitigating a variety of potential risks. ECAs have various means of supporting Export Finance (including offering direct loans on their own account) but for the purpose of the ICC Trade Register, we have only included transactions where an ECA has provided either state-backed Guarantee or Insurance to the financing bank.

The characteristics of the ECA-backed transactions in the ICC Trade Register differ to those of the 'Short-term' Trade Register, in terms of design, timeframe and risk profile. The key structural differences include:

Tenor: while we observe tenors in terms of months for short-term products (except for Standbys and Guarantees, as noted earlier), the majority of the ECA-backed products in the ICC Trade Register have a tenor of under 15 years.

ECA coverage: ECAs offer protection against non-payment by the buyer/importer to the bank extending credit. ECA cover is most commonly provided in two forms:

1. Guarantee - Typically involves 100% protection for covered risks in a case of default
2. Insurance - The protection provided to the lender is less than 100% (i.e. the lender remains exposed to the residual risk) due to the coverage being conditional on a number of obligations, as well as a waiting period and other features that align the payouts to the original repayment schedule

Under both forms of protection, the type of protection can vary. For example, the ECA nearly always covers the political/country risk and typically also covers commercial risks. Commercial risk typically involves buyer/corporate credit risk, but can also be bank risk in instances where a Guarantee or insurance has been provided against Confirmed Documentary Credits.

Idiosyncratic risk: ECA-backed Medium to Long-term transactions are typically managed on an individual basis rather than on a portfolio basis (as with short-term products) given the characteristics of the structures.

The protection provided by the ECA not only extends to principal payments, but also to interest payments due under the transaction. The ECA will often make these repayments in line with the original amortisation profile of the transaction³.

Progress made on refining and strengthening the ICC Trade Register

The ICC Trade Register in its current form has been established to provide a factbase on the risk characteristics of Trade and Export Finance products. The establishment of the ICC Trade Register was driven by the observations that:

- a) A consistent, industry-wide, representative source of Trade and Export Finance related risk data did not exist;
- b) Individual banks' businesses in many cases would not provide a portfolio size large enough to derive statistically robust conclusions (given the low observed level of defaults in individual bank portfolios);
- c) Regulators, banks, and other industry participants and stakeholders lacked a source of information for explanatory/educational purposes and for evidencing the low risk nature of Trade and Export Finance.

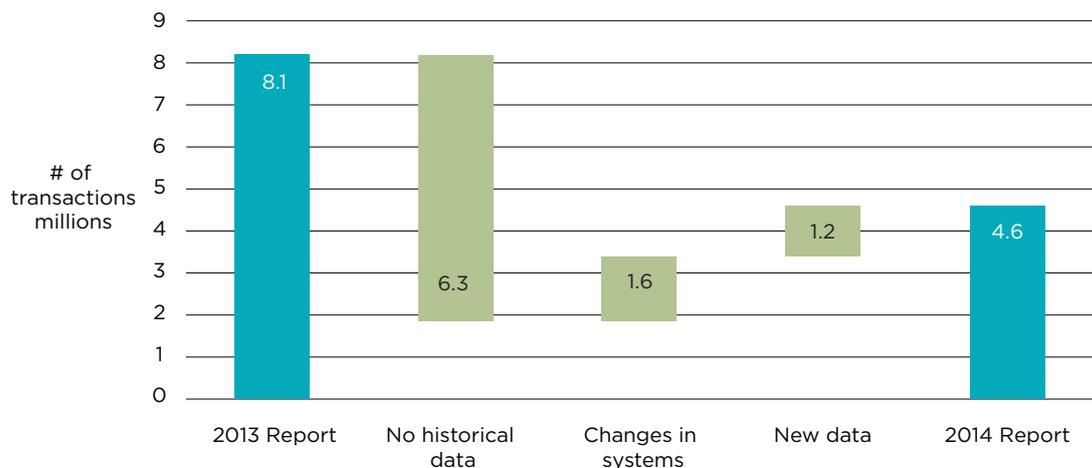
The establishment and build-out of the ICC Trade Register was set as a multi-year process and this year's report on the results of the ICC Trade Register indeed represents a step in the evolution of the ICC Trade Register towards a high quality, comprehensive, globally consistent – and hence representative – data set. As the ICC Trade Register's main objective is to provide a universally accepted source of risk data on Trade and Export Finance, the data itself and methodology needs to be fully aligned to the global standards in risk measurement and risk management as defined by the Basel Committee. Given that there are a wide range of risk measurement approaches being applied by banks globally, the development of a single, consistent source of data needs to be an industry-wide process with all participating banks sharing the efforts to further develop their own databases in order to provide the required data in a consistent format. In this respect every step towards an aligned methodology and consistent database always includes trade-off decisions in terms of full alignment on methodology and resulting data requirements on the one hand, and availability of data in the formats the participating banks can provide on the other hand.

Following completion of last year's report, it was concluded that further steps should be taken to align the risk measures in the report with the definitions embedded in the Basel accords. For the Short-term Trade Register, this meant capturing additional data on all of the key Basel drivers:

Default rate/Probability of Default – in order to further align the reported results with the Basel definition of default, which is on a customer rather than a product basis for corporates, banks have now, where possible, provided data on the number of customers during the year as well as the number of customers entering default (and transaction information as with last year's report). This represents a significant improvement in terms of alignment with the Basel definitions.

Exposure At Default – in order to allow the contingent nature of many Trade and Export Finance products to be better reflected in the EAD or LGD of the product, banks have now, where possible, provided data on the various steps in the 'lifecycle' of Trade and Export Finance products (e.g. how many of the presented L/Cs are never honoured due to a lack of compliant documentation).

FIGURE 3:
Change in number of clean transactions



Loss Given Default – in order to allow for more robust derivation of LGD estimates, banks have now provided information on the Exposure at Default and recoveries of individual transactions which were extant at the time of the customer default. The fact that the ICC Trade Register now contains transaction information, means that average LGDs per transaction, as well as exposure-weighted average LGDs can be reported.

Maturity – banks have now provided information on the contractual maturity of Trade and Export Finance products, allowing the average contractual maturity, as well as the variability across banks, to be rigorously determined.

As a result of this enhanced data provided by banks, this year’s report represents a significant step forward towards fully aligning the methodology and the representation of results with the Basel methodology:

Probability of Default (PD) is reported on an obligor level and compared with transaction level default rates.

Loss Given Default (LGD) figures are calculated per product group based on transactional data.

There is increased insight into Exposure at Default (EAD) albeit there remains further work to derive robust results for all products.

Reported Expected Loss figures are produced on a comparable basis to other portfolios (in terms of measurement approach), although prudent assumptions have been made on EAD and hence EL.

Given that this is the first time that a number of pieces of information have been requested, historical data in the required format is not readily available for all banks, and as a result the number of available data points is lower than in last year’s report. The change in the number of transactions (illustrated in Figure 3) is driven by:

No historical data available – approximately half of the banks were only able to provide the enhanced data for 2012, and as a result the older transactional data has not featured in this year’s report.

Changes in source systems – as the ICC Trade Register now contains a broader set of information, some banks have needed to change source systems for the data or have needed to reduce the scope of countries/ legal entities from which the data has been sourced in order to provide a consistent data set. At the same time, some banks have been able to provide more historical data (including for example one bank whose data was excluded last year as it contained no transaction default information).

New data for this year – banks have supplied data for 2012 and there are a couple of new banks who have contributed data.

However, given that the data now allows calculation of a customer default rate and a more granular (and more robust) approach to LGD estimation, the underlying data set is considered much better aligned to Basel and hence in many respects more robust.

Future reports will build on this year's data to further enhance the analysis: For next year's edition of the ICC Trade Register, banks will at a minimum have one more year of historic data.

Given that the methodology is largely defined now and embedded in the data gathering process, more banks will be able to allocate resources upfront to support data retrieval if the systems do not provide it directly.

Finally, some banks have incorporated these aspects in the build-out of their data infrastructure and Management Information System build-out.

Over and above future additional data capture for the existing in-scope products, the build-out of the ICC Trade Register will also aim at expanding the product coverage. There is a broader array of products used in Trade relationships, which are currently not covered in the ICC Trade Register, notably in the Supply Chain and Receivables Finance space.

Similarly, this report focuses only on the credit risk to which banks are exposed in Trade and Export Finance transactions, but it is important to note that banks are also subject to other risks, including operational and other non-financial and liquidity risk. The operational risk in document handling is a key and very real risk factor in day-to-day Trade and Export Finance business operations.

A more detailed elaboration around the development and evolution of the ICC Trade Register project is included in the section titled "Looking Ahead and Conclusions".

2. MARKET TRENDS

The last two years have been eventful for Trade and Export Finance, with the dynamics of the market changing significantly. We will highlight three major trends shaping the evolution of Trade and Export Finance:

- Product trends – demand for traditional Trade Finance stagnates while Receivables and Supply Chain Finance take off
- Non-bank players – new entrants become more prominent as barriers to entry fall and regulations favor non-banks for some asset classes
- Digitalization – technological progress creates new opportunities and threats

2.1 Product trends – demand for traditional Trade and Export Finance stagnates while Receivables and Supply Chain Finance take off

The dynamics of Trade Finance has become increasingly bifurcated over the last two years as ‘traditional Trade and Export Finance’ (i.e. Documentary Collections, Commercial and Standby Letters of Credit and Guarantees) has become relatively less popular among importers and exporters, while demand for Receivables Finance and Supply Chain Finance has gained momentum in response to the global shift. Having said this, it has been estimated (see the 2013 ICC Global Survey Report) that the Trade and Export Finance portfolios of banks still include less than 20% of transactions categorised as Open Account/Supply Chain Finance.

Trade and Export Finance revenues (across traditional Trade, Receivables finance, Supply Chain Finance and Structured Trade) stagnated at banks globally in 2012 and 2013.⁴

From a supply standpoint, many European banks were still in a post-crisis deleveraging mode. This, coupled with a degree of consolidation and balance sheet constraints in the United States has contributed to a contraction of capacity in Trade and Export Finance. While this led to a withdrawal of trade credit across the globe, the resulting gap has been filled in part by international banks and regional and large domestic banks, including some located in emerging and developing markets. These dynamics have also contributed to further concentration of Trade and Export Finance activity among the largest banks in the world.

Traditional Trade and Export Finance margins were squeezed in 2012-2013, which has resulted in reduced bank revenues. Anecdotally, this was particularly acute in a number of the big trade-driven emerging markets – like Turkey, China and Brazil. The emergence of regional and large domestic banks in the trade financing space contributed to this reduction in margins as they sought to grab market share from the global banks.

The story is very different for Receivables Finance and Supply Chain Finance. Improvements in the legal environment have allowed Receivables Finance to take off in the emerging markets, particularly in Asia. In addition,

the stigma of using receivables finance has also increased – where it used to be seen as financing of last resort, this perception is falling away. Moreover, the new Basel rules have increased the cost of vanilla lending (as the amount of high-quality equity required to support a loan has increased), making Receivables Finance a more attractive option. As a result of these two drivers, Receivables Finance has grown strongly and we expect it to become increasingly prevalent in the medium term.

2.2 Non-bank players – new entrants become more prominent as barriers to entry fall and regulations favour non-banks for some asset classes

While non-bank players have always been a part of the Trade and Export Finance landscape, they have become more prominent in recent years, particularly in Open Account and Supply Chain Finance. These players span a wide range of services, from lending (most commonly Receivables Finance), to logistics, platform and technology provision, Insurance and other products and solutions linked to Trade and Export Finance. Previously, the lack of a distribution channel held back their uptake by corporates. However, as more transactions go online, this barrier to entry has lowered, allowing more non-bank players to access potential clients more easily.

In addition, Basel III liquidity requirements, particularly the requirement to fund behaviourally long-term assets with long-term liabilities (as a result of the Net Stable Funding Ratio), have made certain asset classes less expensive to house on a non-bank balance sheet. Examples include Receivables Finance particularly for SMEs and Guarantees in the case of insurers.

This shift in the relative attractiveness of holding assets on bank vs. non-bank balance sheets, combined with a hunt for low risk investments with good yields, has also led to investors coming into the picture and some asset managers and hedge funds have started looking at trade assets as a potential investment class. Some investors have also looked at ECA-backed business (as a form of ‘sovereign paper’) but entry has been slow.

2.3 Digitalization – technological progress creates new opportunities (and threats)

The application of digital technology to Trade and Export Finance is increasingly an area of focus for banks due to a number of factors:

- Change in expectations: as corporate executives and business owners receive more enhanced digital offerings from their retail banks, they tend to expect similar digital enhancements for their business and corporate accounts
- Regulatory pressures: new regulations for Know Your Customer (KYC) and Anti Money Laundering (AML), reporting and record-keeping, and conduct risk are forcing banks to make better use of technology to comply with increased data and reporting requirements

- New opportunities from data and information: banks are increasingly mining the transaction data of their clients as it holds a wealth of information about their behavior, which helps them offer a host of value-adding solutions and services to customers
- Competition from non-bank players: Several non-bank players are coming up with innovative solutions which address customer needs in a better/cheaper way than solutions provided by banks, forcing banks to respond by identifying ways in which to better leverage the data and information that is currently available to them

While documentation remains a critical part of Trade and Export Finance, many transactions are increasingly coming online. Corporates and governments are modernising their internal systems and processes and therefore also demand the same from their banks. The recent introduction of Bank Payment Obligations (BPOs) – an industry wide cross-border payment instrument resembling the risk mitigation characteristics of Trade Finance instruments while being processed entirely electronically – is one such step to link parties to a trade transaction more efficiently while providing risk cover and (electronic) processing.

3. REGULATORY UPDATE

Numerous regulations impact Trade and Export Finance; this report will focus on the two most significant ones, namely the Basel Accords and capital adequacy and operational risk related to AML/KYC/KYCC regulations.

3.1 The Basel Accords and capital adequacy

The Basel capital standards are a set of internationally agreed standards that over the years have sought to improve the level and quality of capital held by banks, as well as the way in which banks assess the amount of capital required by the banks to remain solvent. The key concept from a credit risk perspective is that banks' assets (whether on or off-balance sheet) should have capital held against them, with the amount of capital required being a function of the following⁵:

The customer default risk within 12 months (or Probability of Default (PD), with riskier customers having higher risk weights).

The amount of exposure which would exist at the point of default (known as the Exposure at Default or EAD), which for on balance sheet and off balance sheet exposures is defined as the gross exposure including an estimate of the undrawn/unutilised facility upon default of the obligor (referred to as the credit conversion factor or CCF).

The expected Loss Given Default (or LGD) which reflects the existence of collateral and the seniority of a bank's claim.

The tenor or maturity of the product (with products with longer tenor requiring more capital to be held).

The customer segment (known as the asset class⁶) which is intended to reflect the sensitivity of customer default rates to the economic cycle.

These characteristics are combined through a set of prescribed formulae to determine for each asset the Risk Weighted Asset (RWA), with higher PD, EAD, LGD or maturity typically leading to higher capital requirements. The minimum amount of high quality capital which a bank needs to hold per dollar of RWA varies by country, and may vary across banks as well (e.g. designated Globally Systemically Important Banks are, all else being equal, required to hold more capital per dollar of RWA).

As the Basel capital standards are intended to ensure adequate capitalisation of banks for the risks they face, where there has been limited evidence of the low risk nature of certain exposures, regulators have chosen to be prudent in determining the risk weights for assets. However, there have been a number of revisions in the last three years to the Basel framework, reflecting the growing recognition of the low risk characteristics of Short-term Trade Finance.

These include:

Waiving of the one-year maturity floor: Under Basel II, a maturity floor of one year was set for the calculation of RWAs under the Advanced Internal Ratings Based approach. In October 2011, the Basel Committee decided to waive the one-year maturity floor for self-liquidating Trade Finance instruments⁷ with a maturity of less than a year. This waiver applies to both issued and confirmed self-liquidating letters of credit with a maturity of less than a year. It is estimated that

this would reduce the capital charge on a Trade Finance facility to a BBB-rated obligor from 2.9% to 2.6%⁸. Moreover, under the Capital Requirements Regulation (CRR), national regulators are given the discretion to extend the maturity floor waiver to cover all Trade transactions. This approach has also been adopted outside Europe including by the regulators in the US and Hong Kong.

Waiving of the sovereign floor: Basel II stipulated that claims on an unrated bank could not receive a risk weight below that applied to claims on its sovereign of incorporation (i.e. the country in which the bank is based).¹⁰ This requirement was waived in October 2011 for self-liquidating Trade Finance instruments.

Capping the run-off rate at 5%: The Liquidity Coverage Ratio (LCR) in Basel III originally left the run-off rate for Trade Finance-related contingent facilities (e.g. letters of credit) to the discretion of the national regulator. However, in January 2013, the Basel Committee decided that national regulators may determine the outflow assumption within the range of 0 – 5% for contingent products.

Reduction of Credit Conversion Factor (CCF) for Leverage Ratio. The initial definition of the Leverage Ratio in Basel III set a uniform 100% CCF for all exposures. In January 2014, the Basel Committee decided that short-term self-liquidating trade Letters of Credit and Guarantees would receive a CCF of 20% and 50% respectively.

These revisions have been welcomed by suppliers and users of Trade Finance as steps more closely aligning the Basel framework with the true economic risk profile of Trade Finance instruments. Also these changes have been welcomed by the ICC as a constructive step towards prudent regulation, allowing adequate access to Trade Finance to support the sustainable recovery of the “real economy” and creation of jobs¹¹. It is encouraging to note that the ICC Trade Register as the first performance database for Trade Finance assets has been instrumental in fostering a constructive fact-based dialogue with regulators and policymakers at a global level¹².

These refinements assist in approaching a more equitable and risk-aligned treatment of Short-term Trade Finance, and are well-supported through the data and analytics arising from the ICC Trade Register.

The focus of the public discussion now has turned to two elements of the Basel III proposal which would lead to higher capital requirements for Trade Finance as compared to Basel II treatment:

Asset Value Correlation (AVC) adjustment: Effective from 1 Jan 2014, a 1.25 multiplier for the AVC adjustment for exposures to large (assets in excess of USD 100 billion) financial institutions and unregulated financial institutions has been introduced. Given that bank-to-bank exposures are relatively common in Trade and Export Finance, the AVC will lead to higher capital charges for banks active in Trade and Export Finance.

Net Stable Funding Ratio (NSFR): The original NSFR proposal stipulated that 85% of short-term lending to SMEs and 50% of short-term lending to corporates (with a remaining maturity of less than one year) should be funded with longer-term liabilities as it is expected that such assets are behaviourally longer term due to rollovers and / or in a stressed environment. This regulation might have some impact on Receivables Finance and Supply Chain Finance economics as fundamentally short-term instruments, which are being widely used in the SME segment (e.g. directly or as the SME being part of a Supply Chain Solution) and

for which liquidity charges might increase. The BIS, however, has committed to gathering data to allow analysis on buckets of both assets and liabilities maturing within the one-year horizon during the observation period, to further consider the treatment of these instruments in the NSFR. As a consequence of the new NSFR proposal, the maximum required stable funding (RSF) factor (including for SMEs) would be 50% (cf Annex 1 of BCBS 271).

It should be noted that local regulations in some instances may differ from the Basel regulations. One example of this is the CRR rules in Europe, which allow the CCF for Performance Guarantees to be reduced from 50% to 20% and provide for more favourable Liquidity Coverage Ratio (LCR) rules (100% of inflows recognised compared to Basel which recognises only 50% of inflows). The US Federal Reserve, on the other hand, has not formally approved the use of lower CCFs for the Leverage Ratio (but is anticipated to accept). Such differences in rules and regulations may give rise to the possibility of regulatory arbitrage across jurisdictions.

In addition to the above areas of debate on the impacts of Basel III (and its local implementations) for Short-term Trade Finance, there remains concern in the industry on the implications of the Leverage Ratio on OECD government backed Export Credit Agency Medium to Long-term Trade Finance. As demonstrated by the data in this year's ICC Trade Register, these exposures have experienced low loss rates, which may to some extent be reflected within the Risk-Weighted Asset calculation. However, within the Leverage ratio, there is no recognition of the risk-mitigation benefits of Guarantees or Insurance, which means that in many cases the capital requirements for ECA backed Medium to Long-term Trade Finance exposures will be determined by the Leverage Ratio (which would be typically significantly higher than the RWA-based capital requirement).

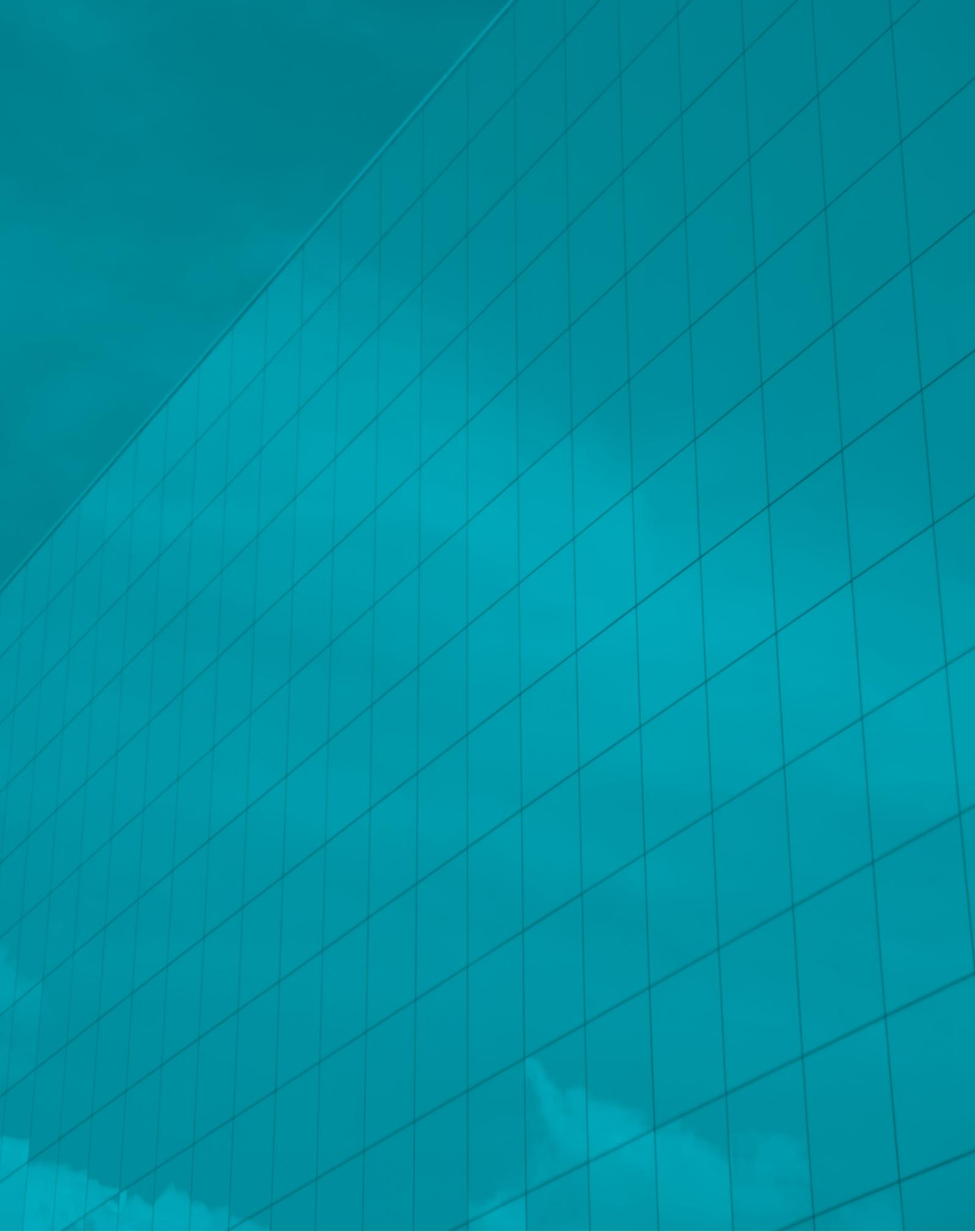
3.2 Operational risk related to AML/KYC/KYCC regulations

Enforcement of anti-money laundering/know your customer/know your customer's customer regulations have been tightened in recent years. In addition to significantly enhanced scrutiny, material fines have been imposed on some of the industry's largest players for alleged failings in this area. This has led to a greater focus at many banks on their customer onboarding and KYC processes, resulting in higher operational costs for the Trade and Export Finance business.

Furthermore, resulting increased legal risks have led a number of banks, especially global players, to review their correspondent banking networks closely, with some of these banks terminating correspondent banking relationships with perceived outsized risk relating to AML/KYC/KYCC aspects. If this development turns into a broader trend it could potentially have a significant impact on the ability of smaller players to provide international services (such as Trade and Export Finance) for their clients.

As a consequence, prudent and efficient operational risk management around AML and KYC issues is becoming increasingly important for banks globally. However, operational risk management extends well beyond these areas and is at the heart of Trade and Export Finance business operations. The operational risk in document handling is a key and very real risk factor in day to day work of Trade and Export Finance practitioners.





LOOKING AHEAD

Evolution of the ICC Trade Register Project ▶

Conclusions ▶

4. DEVELOPMENT AND EVOLUTION OF THE ICC TRADE REGISTER PROJECT

While the 2014 ICC Trade Register has made significant advancements since last year, it is acknowledged that there is still room to drive enhancements and improve methodology. The points below illustrate the potential directions in which the ICC Trade Register can advance, suggesting some of the strengths and weaknesses of each.

The ICC Trade Register Project Team has undertaken a review and revision of the strategic plan for the Register. The high-level objective is to enhance and reinforce the default data-gathering and related analytics which are at the core of the Register, while concurrently seeking ways to expand the scope of the Register.

The updated strategy document is available to participating banks and organizations upon request to the project Steering Committee. Elements of the broader strategy related to the ICC Trade Register are covered in the remainder of this section.

4.1 Increasing participation

Between 2013 and 2014 three new participants contributed data to each of the Short-term and the Medium to Long-term Trade Registers, which has increased the share of the Trade and Export Finance total market participating in the ICC Trade Register. However it is still the ambition to continue to grow the ICC Trade Register, especially for regional banks who may not have been involved as much previously. The broader the bank coverage, the more representative are the conclusions and risk metrics derived for the market as a whole. Furthermore the more comprehensive the data set, the less likely the data and the conclusions derived therefrom can be skewed by 'extreme' values.

4.2 Improving data quality and analytics

As well as greater participation, it is imperative to continue to improve the quality of the data in order to continue to improve the robustness of the results. Whilst a detailed filtering process is used to clean the database, there are some data issues on a very granular level which might bias the results (although where there are significant concerns, data has been excluded).

Furthermore, given that a number of data elements were new this year, it has not been possible for all banks to supply the data in time and in the required format for the purpose of this year's report and hence it was not possible to include some of the planned analyses in this year's report. With an improvement in the data quality and additional time for data collection over the course of the year, next year's report is expected to provide even greater insights into the risk characteristics of Trade and Export Finance.

Rather than simply reporting aggregated data as was the case in 2013⁶⁴, the 2014 ICC Trade Register contains granular transaction level data for defaults; this data has been imperative for enabling the calculation of LGD and EL on the portfolio. As the process towards a complete database of

transaction-level data advances, the depth of the analytics can be grown significantly, and it is possible that banks might be able to use the ICC Trade Register for internal modelling purposes. Achieving regulatory approval of any analysis based on external data would require specific conversations by banks with the relevant regulators; however, it shows the potential for the ICC Trade Register in the future.

Feedback from many of the bank participants is that the data collection often is a manual process, particularly where information has not previously been requested. Given the important changes in information captured in the ICC Trade Register this year, significant time was spent defining and agreeing the content and format of the data request in the Steering Committee, which curtailed the time available for data collection. However, there are expected to be fewer enhancements to data capture in next year's edition and hence the data gathering process will be able to be started earlier in the year, allowing additional time for data collection (including further checks and queries where necessary).

As discussed throughout the report, one of the major changes in methodology since last year was to introduce a customer dimension into the database. This has provided for calculation of defaults at a customer level rather than on a transactional level. This improvement, together with additional data requirements for EAD and LGD, which have helped to achieve closer alignment to the requirements of the Basel regulatory framework, required a significant structural change to the collection. This remains the primary reason why there have been changes in the amount of available data relative to last year.

4.3 Extending scope and applicability of data

As noted, the ICC Trade Register in its current form does not cover the full spectrum of Trade and Export Finance instruments. Potential future enhancements to the ICC Trade Register could include broadening the scope to also cover Receivables Finance, including Factoring, Forfaiting and Asset Based Lending, and Supply Chain Finance. However, as much as this would give greater breadth to the Register, care would need to be taken regarding the data collection, and also the interpretation and comparison of results. Where banks report different products via different systems or teams within the internal organizational structure, the concern would be whether definitions were being kept consistent across the submission. However, with due care and clarity during the data collection, an extension of the ICC Trade Register's scope would give a more comprehensive risk view for Trade and Export Finance.

Similarly, this report focuses only on the credit risk to which banks are exposed in Trade and Export Finance transactions, but it is important to note that banks are also subject to other risks, including operational and other non-financial and liquidity risk. Potential future enhancements to the ICC Trade Register could include broadening the scope of risk types assessed as well, given that for example operational risk in document handling is a key and very real risk factor in day-to-day Trade and Export Finance business operations.

Trade finance banks contributing data and/or analytical support to the ICC Trade Register Project will be actively consulted as the future of the ICC Trade Register is considered and mapped. The data collected and utilised in the creation of this Report is the property of participating banks, and its appropriate use or evolution will be determined in close consultation with members of the project Steering Committee in particular.

5. CONCLUSIONS

This year's report on global risk in Trade and Export Finance represents a point in time perspective on the risk profile of the Trade and Export Finance business in a dual sense:

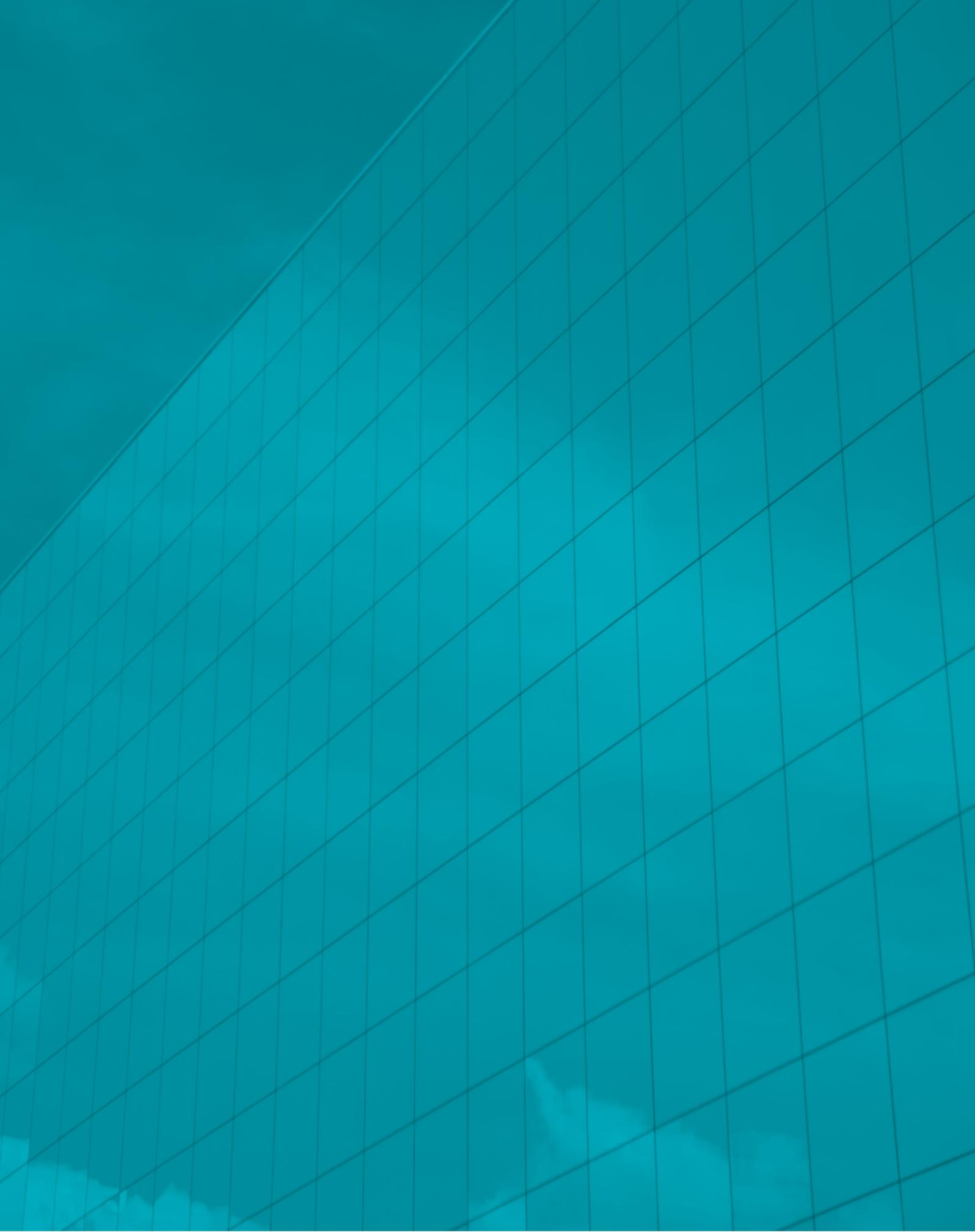
- The results mainly focus on the year of 2012 and across the past five years, however, only in future years will the ICC Trade Register be able to cover a full through the cycle perspective
- The results are based on this year's version of the ICC Trade Register, which in itself is undergoing a development process towards fully capturing all relevant risk data in a way that will be fully compliant with regulators' methodology and approaches to measuring risk

Having said this, the results for both Short-term and Medium to Long-term Trade and Export Finance clearly demonstrate a low risk profile of Trade and Export Finance as compared to other asset classes. As it could be shown, default rates are relatively low, the products are very liquid (Short-term Trade Finance), losses in the case of a default are relatively low. This leads to a low overall Expected Loss as the Basel compliant measure of risk.

The ICC Trade Register indeed is on a journey towards fully Basel compliant risk measures in Trade and Export Finance. In this year's report, material progress was made across some key parameters, notably defaults and loss given default. A transparent and fully Basel methodology aligned comparison of customer/obligor level defaults with transaction level defaults could be presented, clearly showing the relatively lower transaction default levels which indicate a relatively low risk of Trade and Export Finance products as compared to customer level counterparty risk. Moreover, there is a clear understanding and factbase on Loss given Default in place now for Short as well as Medium to Long-term instruments. Further work will be required to accurately capture Exposure at Default (EAD), i.e. the exposure outstanding at the point of default. Precisely describing EAD requires very granular data which covers a full transaction lifecycle in detail. Whilst case study examples were available for this report, a full set of statistically reliable analysis was not yet possible given limitations in providing this type of data within the required timeframe. It will remain a key focus of future editions of this report to provide a detailed "lifecycle" analysis and a granular EAD analysis in order to present the risk measures in accordance with a fully Basel compliant methodology.

Thus, the future development trajectory of the ICC Trade Register is clearly defined and captured in the three year strategy: step-by-step moving towards a fully Basel compliant measure of risk in Trade and Export Finance based on a comprehensive, granular, complete and hence high quality data base representing the full set of Trade and Export Finance products across customer segments, trade corridors and geographies globally. The ICC Trade Register in its strong partnership with the participating banks has already achieved notable progress towards this objective, and will continue to actively develop and extend its value proposition for participating banks, regulatory authorities and other stakeholders, as well as the trade and supply chain finance industry at large.





ANNEX

[APPENDIX A: Glossary of key terms >](#)

[APPENDIX B: Overview of Short-term
Trade Finance products >](#)

[List of Acronyms >](#)

APPENDIX A: GLOSSARY OF KEY TERMS

PD

Probability of Default is the probability that a counterparty defaults on any exposure to a bank within 12 months (Basel rules require the “long-run average of one-year default rates for borrowers”)

EAD

Exposure At Default is the amount the customer will owe the bank on a given transaction at the point of default

LGD

Loss Given Default is the economic loss which a bank is expected to incur on a transaction when a customer defaults, reflecting any credit risk mitigation

EM

Effective Maturity is remaining maturity in years of an exposure

EL

Expected Loss, or the level of loss expected on a given loan portfolio, can be calculated using the formula $PD \times EAD \times LGD$

ADVANCE PAYMENT GUARANTEE/BOND

A guarantee or bond provided by a bank to the buyer. The guarantee/bond undertakes to return to the buyer on behalf of the supplier, usually on demand, down payments or progress payments made if the supplier fails to complete the contract.

ADVISING BANK

A bank in the beneficiary’s country, usually a correspondent of the issuing bank, through which the issuing bank communicates the credit to the beneficiary. It may also be asked to confirm and/or pay the credit.

APPLICANT

The buyer who applies for a letter of credit. **AVAL** An unconditional, irrevocable, divisible and freely transferable guarantee to pay the beneficiary on the due date.

BASIS POINT

One hundredth of one percentage point (0.01%). 100 basis points = 1%.

BENEFICIARY

The person (for example, the exporter) in whose favour the credit is issued.

COLLECTIONS

The provision by a bank of a service to a customer allowing documents proving shipment of customers’ goods to be transmitted via itself and another bank to the buyer of the goods. The release of documents to the buyer, thereby giving him title to the goods, is normally dependent upon payment by him or the promise to pay.

COLLECTING BANK

The bank in the buyer’s (drawee’s) country to whom the collection order and documents are directed.

COMMERCIAL RISK

The possibility of non-payment arising from commercial causes such as bankruptcy, insolvency, protracted default and/or failure to accept goods that have been shipped according to the supply contract.

CONFIRMING

The practice by advising banks of adding their separate undertakings to those of issuing banks and assuming liability under documentary letters of credit.

CONFIRMING BANK

A bank that adds its own independent payment undertaking to that of the issuing bank. The confirming bank is normally in the beneficiary’s country. The confirmation protects the beneficiary against the issuing bank defaulting, and political risk with regard to the country in which the issuing bank is situated.

CREDIT APPLICANT

A bank's customer (buyer) who requests the issue of the documentary letter of credit. For example, in the case of an export sale, the importer.

CREDIT RISK

The risk that a seller will be unable to recover all or part of a receivable due to the occurrence of a cause of loss related to his buyer's ability to pay.

DIRECT PAYMENT

Payments due from the buyer to the supplier in cash during the contractual period, which are not eligible for financing under a buyer or supplier credit financing.

DISCOUNT RATE

The rate by which the future value of a negotiable instrument is discounted. The discount rate is generally calculated as either a discount-to-yield or straight discount.

DISCOUNTING

Buying accepted term bills of exchange at a discount to allow for loss of interest on the funds until the bills mature.

DISCREPANCY

When documents presented do not agree with the terms of the credit or with each other.

DISHONOUR

The refusal to pay or accept a bill of exchange.

DOCUMENTARY COLLECTION

A collection concerning goods and entailing commercial documentation.

DOCUMENTARY CREDIT

A letter of credit that calls for the presentation of specified documents, issued to effect payment during a business transaction. It aims to provide exporters with an independent bank promise of payment against a conforming presentation of shipping and other documents.

EXPORT CREDIT

A loan to help the financing of the sale of capital goods and/or services eligible for a minimum repayment period of two years, which is officially supported under the OECD Consensus.

EXPORT CREDIT AGENCY (ECA)

The organization which provides official support to facilitate exports from its country. Its main function is to provide insurance against the commercial and political risk of non-payment for the exports. Commercial risk cover includes eventualities such as the buyer going into liquidation. Political risk cover includes the eventuality of war, or a change in the importing government's foreign exchange controls which might prevent the importer from effecting payment. Some export credit agencies provide insurance cover only; others provide both insurance and medium- and long-term finance for capital goods

EXPORT FINANCE

The provision by government or privately-owned companies of financial help to exporters designed to encourage the export of goods. The help may be via the insurance of export receivables and/or guarantees/ insurance of export-related loans. Export finance applies to large transactions where credit over a period of years is required. Export finance is required when an importer needs deferred payment terms for the product or services that an exporter seeks to provide.

FACTORING

The purchase from a company of some or all of its trade receivables with or without recourse to the company itself in the event that the receivables are unpaid. The service may also involve administration of the sales ledger for the company.

FIXED PRICE

A fixed sum agreed at the outset of a contract, payable by the buyer for a specified task (also referred to as lump sum).

FORFEITING

The purchase (without recourse to any previous holder of the debt instrument) of negotiable trade instruments resulting from the export of goods and services.

IRREVOCABLE

The issuing bank and any confirming bank undertake an irrevocable payment obligation towards the beneficiary. The undertaking cannot be cancelled or amended unless the beneficiary agrees.

ISSUING BANK

The bank which issues a documentary credit. It may also be referred to as an opening bank.

LETTER OF CREDIT (L/C)

A document established by the buyer for the purpose of financing international trade via substituting the bank's credit for that of the buyer. A letter of credit should be subject to the ICC Uniform Customs and Practice (UCP600) for documentary credits. The L/C states the amount and the terms under which the bank will pay the exporter when documents are presented to the bank.

LETTERS OF INDEMNITY

Letters of indemnity, or shipping guarantees, are sometimes issued by banks when bills of lading or other transport documents go missing or are delayed on goods shipments. Typically, such guarantees are issued for between 100% and 200% of the value of the goods. Prevalent in oil trade.

LINE OF CREDIT

A buyer credit arrangement set up to finance multiple contracts subsequently entered into and nominated to the lender by the buyer and accepted by the lender as eligible for finance under the line. Lines of credit may either be for miscellaneous capital goods purchases (usually known as general purpose lines of credit) or for multiple contracts associated with one project (usually known as project lines of credit).

MATURITY

The date on which a bill of exchange, promissory note or other debt instrument becomes due for payment.

NEGOTIATING BANK

A bank buying the documents which obtains the right to deal with the documents any way it must to ensure repayment.

OBLIGOR

A buyer obligated to pay (debtor).

OFFSET

Offset is one type of countertrade trading relationship. Offset agreements are usually practised by governments and cover military and important civil procurements. Governments award business to a company in another country, and in return for the contract, the price paid is offset by the company producing the product in the buying country.

OPEN ACCOUNT TRADING

Trading in which the importer pays after the exporter has dispatched the goods.

PERFORMANCE BOND

A bond provided by a bank or an insurance company on behalf of a contractor in favour of the buyer promising compensation, usually on demand for bank bonds, in the event that the goods supplied/services performed do not meet the agreed contractual specifications.

POLITICAL RISK

Risk that execution of a contract will be prevented by political causes such as political violence, expropriation or currency inconvertibility. Political risk also covers default by a public-sector buyer.

PRE-EXPORT FINANCE

Financing that takes place before the product is ready for export. For example, an edible oil exporter might receive pre-export finance to enable it to buy seeds, which it will crush to make the oil, or a coal producer may ask for financing in order to cover the costs of mining the coal and transporting it to the port of loading. The export contract should be large enough to cover the repayment of the pre-export loan.

RECEIVABLES

Money owed to a business for merchandise or services sold on open account. Receivables are a key factor in analyzing a company's liquidity.

RECOURSE

The lender's right to recover funds (including interest where appropriate) from borrowers if they fail to pay.

REVOLVING CREDIT

A credit where the amount of available drawings is reinstated automatically after a stated period of time.

STANDBY LETTER OF CREDIT

A letter of credit that provides for payment to the beneficiary evidenced by certification that certain contractual obligations have been fulfilled.

SUPPLIER CREDIT

A financing arrangement under which the supplier agrees to accept deferred payment terms from the buyer, and funds itself by discounting or selling the bills of exchange or promissory notes so created with a bank in its own country.

TRANSFER RISK

The risk or inability to convert local currency into the currency in which debt is denominated and/or the ability to transfer the funds to the country of the lender/exporter. Also known as conversion risk.

UNIFORM CUSTOMS AND PRACTICE FOR DOCUMENTARY CREDITS (UCP)

An ICC set of rules and guidelines, drawn up by the ICC primarily for banks, relating to the issue and handling of letters of credit. It is applied virtually worldwide. The latest revision is UCP600 which came into effect on July 1, 2007.

USANCE LETTER OF CREDIT

A deferred letter of credit without bills or notes issued under it.

APPENDIX B: OVERVIEW OF SHORT-TERM TRADE FINANCE PRODUCTS

We generally distinguish Short-term from Medium to Long-term Trade Finance products. We define Short-term Trade Finance products as all instruments facilitating trade transactions with a maturity of normally less than a year and a clear link to a specific trade transaction. Short-term Trade Finance instruments are traditionally considered highly liquid products given the relationship to a specific transaction and clearly identified trade good. They are also collateralised by a) a set of documents; and b) the underlying goods themselves. Furthermore, at least one bank, but in many cases two or more banks, are involved, transforming what was a corporate counterparty risk for an exporter into (at least to some extent) a financial institution (FI) counterparty risk. In the following sections we outline the main characteristics of the most commonly used Short-term Trade Finance instruments. Please also see the appendix for a detailed description of the instruments and their product and transaction profile.

Import Letters of Credit

As noted above, when a firm in one country (the importer) wants to import goods from a firm in another country (the exporter), it needs to agree on how it is going to pay for the goods. Where the importer is not familiar to the exporter, the exporter may be unwilling to run the risk of shipping goods to the importer only to find that they do not get paid. This means that, in the absence of trade finance products, if the exporter is unwilling to run the risk that the importer will not pay, the exporter can either choose to make the importer pay for the goods in advance, which the importer may be unwilling to do, or choose not to sell its goods to the importer⁵.

This is where an import L/C can play a beneficial role. Instead of requiring upfront payment from the importer, the exporter can ask the importer for a guarantee from a bank that the payment will be made, i.e. it can ask for an import L/C. Under this arrangement, the risk to the exporter of non-payment is reduced, as banks are typically lower risk than a normal company in another country.

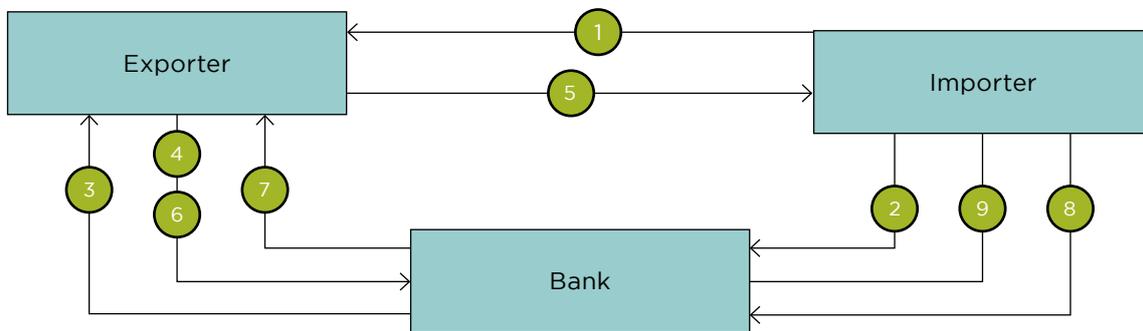
An import L/C is a document issued by a bank on behalf of an importer to an exporter that guarantees payment for goods or services. It is also known as a straight L/C or unconfirmed L/C.

An import L/C is a contingent obligation (i.e. off balance sheet) and remains so until compliant documents are presented. At the point that compliant documents are presented, or at an otherwise specified time, the bank will typically pay the amount owed with funds deducted directly from the importer's other accounts or facilities with the bank. It is only at this time, if there are inadequate funds in the importer's accounts or facilities with the bank, that the bank has to pay the exporter and then reclaim its money from the importer. Exporter's banks are often involved in handling documents and payment without having to provide any guarantees themselves. Figure 3 shows how an import L/C works.

Export Confirmed Letters of Credit

One possible issue for the exporter when using an import L/C is that, whilst it has now reduced the risk of non-payment from the importer, it has replaced it with the risk that the bank issuing the L/C (also known as the issuing bank) may not make its payments. Whilst banks are often relatively low risk, if the exporter is unfamiliar with the issuing bank, or has concerns about the country where the bank is based, then it may still be unwilling to export the goods or provide the service.

FIGURE 48:
Transaction process flow for an import letter of credit



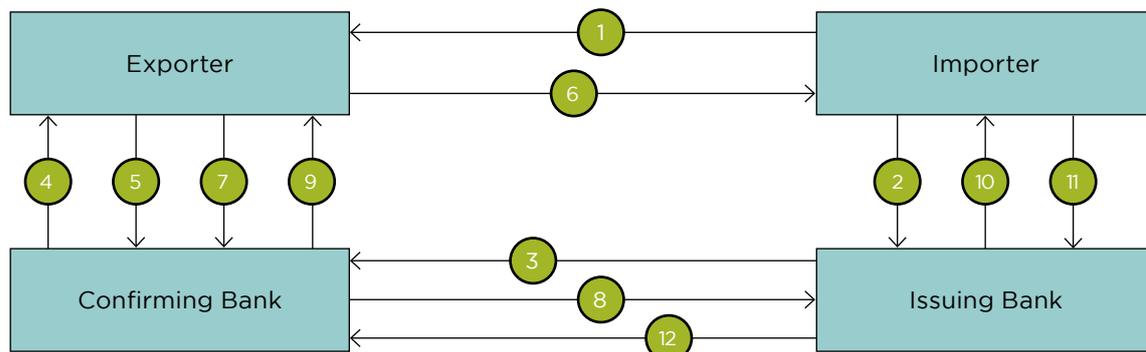
1. Exporter and importer agree contract of sale
2. Importer requests L/C
3. Bank issues L/C on behalf of the importer in favour of exporter
 - L/C will set out the terms and conditions for payment
 - Typically on the presentation of a compliant set of documents
4. Exporter checks and accepts the L/C
5. Exporter ships goods to importer
6. Exporter issues documents, such as bills of lading, as required by the terms and conditions of the L/C and sends them to the issuing bank
7. Issuing bank checks the documents and, if compliant, arranges payment to the exporter
 - Either "at sight", i.e. upon presentation of compliant documents
 - Or "usance", i.e. after a specified term, such as 30 or more days after sight or shipment date
8. In exchange, the importer pays the issuing bank (or provides a bill of acceptance, draws down on a credit facility, etc.)
9. Issuing bank releases documents to the importer

This is where the export confirmed L/C can play a beneficial role. The exporter can approach a bank that it is familiar with or one that it trusts and asks them to guarantee the payment from the issuing bank, i.e. it can ask for an export confirmed L/C. Under this arrangement, the risk to the exporter of non-payment is further reduced as the bank it selects to guarantee the payment (also known as the confirming bank) may be lower risk than the issuing bank in another country.

This means that, as with an import L/C, an export L/C is a document issued by a bank on behalf of an importer to an exporter that guarantees payment for goods or services.

Confirmation is generally used when there is a risk that the issuing bank may not fulfil its obligation to pay, for example due to poor credit-worthiness or political instability in the country of the issuing bank. In effect, a confirming bank substitutes its credit-worthiness for that of the issuing bank. Figure 4 shows how an export L/C works.

FIGURE 49:
Transaction process flow for an export confirmed letter of credit



1. Exporter and importer agree contract of sale
2. Importer requests L/C
3. Issuing bank issues L/C on behalf of the importer in favour of exporter and sends it to the confirming bank
4. Confirming bank checks and accepts (confirms) the L/C before advising the exporter of the receipt of L/C documents
5. Exporter checks and accepts the L/C
6. Exporter ships goods to importer
7. Exporter presents documents, such as bills of lading, as required by the terms and conditions of the L/C and sends them to the confirming bank
8. Confirming bank checks the documents and, if compliant, releases documents to the issuing bank
9. Confirming bank arranges payment to the exporter (at sight or usance)
10. Issuing bank checks the documents and, if compliant, releases documents to the importer
11. In exchange for the documents, the importer pays the issuing bank (or provides a bill of acceptance, draws down on a credit facility, etc.)
12. Issuing bank arranges payment to the confirming bank

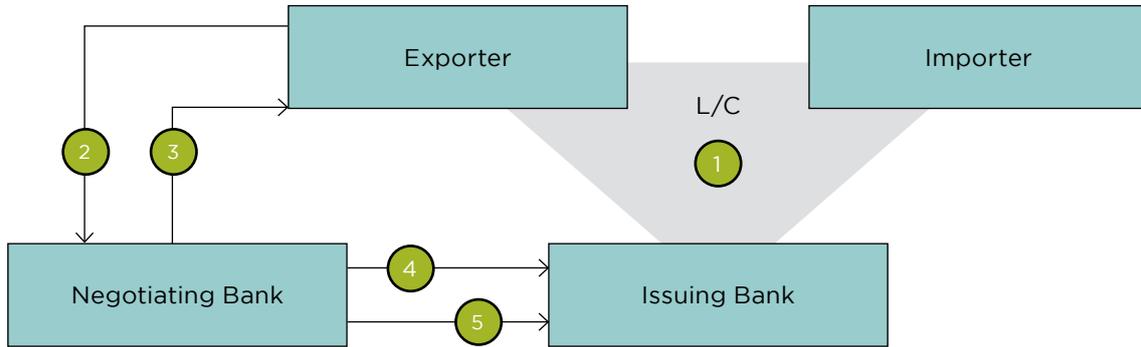
Loans for Export

As explained above, the import L/C and export confirmed L/C reduce the risk of non-payment to the exporter. However, the exporter may still face the problem that the payment will take a reasonably long time to be made given the terms of the transaction and, while awaiting payment for this exported goods or service, the exporter may need to pay staff or buy further materials etc.

This is where a loan for export can play a beneficial role. Given that the exporter has a L/C, it can use this as collateral for a loan from a bank in order to accelerate payment i.e. it can use a loan for export⁶. Under this arrangement, the L/C component reduces the risk of non-payment, whilst the loan provides funds more rapidly, thereby reducing liquidity risks for the exporter and allowing it to undertake more trade.

A variety of techniques and structures exist which have the effect of loans extended to the exporter. For example, as a common means of providing working capital financing where L/Cs are being used, an L/C structure can be set up as per an import L/C but with a 'negotiable' clause. Figure 5 shows how such a negotiable L/C works.

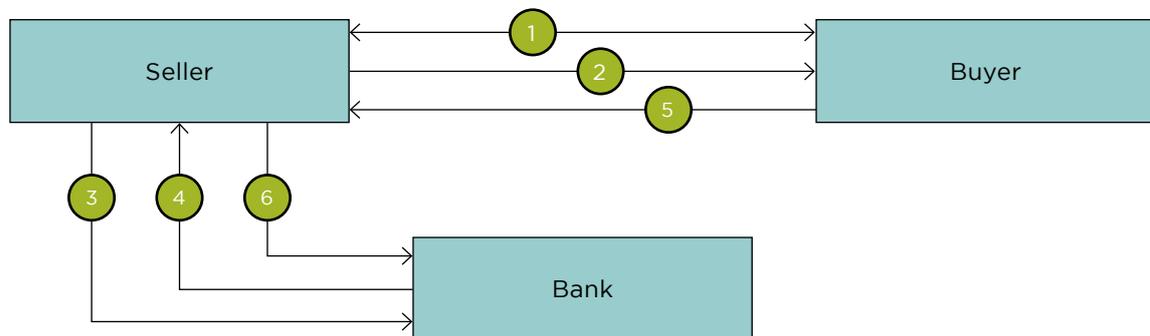
FIGURE 50:
Transaction process flow for a negotiable L/C



1. L/C structure set up as per import L/C
 - L/C needs to have a “negotiable” clause (i.e. an assurance from the issuing bank that it will reimburse anyone under the terms and conditions of the L/C who “negotiates” against conforming documents)
 - Hence, negotiating bank usually not named in the L/C
2. Exporter presents documents to the negotiating bank as per the terms and conditions of the L/C
3. Negotiating bank checks the documentation and, if compliant, advances cash to the exporter
The “negotiation” is effectively the purchase of documents from the exporter at a discount
4. Negotiating bank presents the documents to the issuing bank
5. Issuing bank checks the documents and, if compliant, arranges payment to the negotiating bank

Other common export loan arrangements include discounted L/Cs, forfaiting and factoring, and supply chain finance. Figure 6 shows how a typical invoice discounting structure works. The main function of this group of instruments is pre-financing and ensures liquidity for producing the goods to be exported.

FIGURE 51:
Transaction process flow for invoice discounting

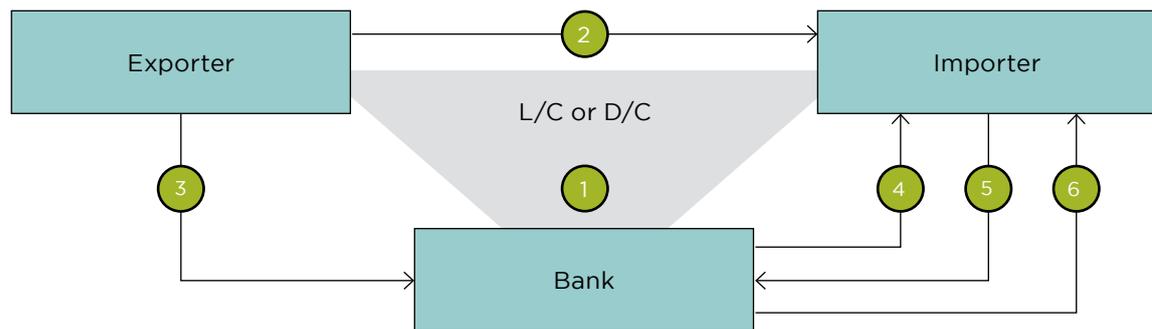


1. Seller and buyer agree contract of sale
2. Seller raises an invoice and sends it to the buyer
3. A copy is also sent to the bank
4. Bank approves the invoice and advances cash to the seller at a discount to the value of the invoice
5. Seller collects payment from the buyer
6. Seller repays the bank

Loans for Import

Techniques and structures are available by which a bank advances a loan to an importer based around an L/C structure. One typical structure is a clean import loan, in which the bank advances cash to the importer on presentation of supplier invoices and evidence of shipment. This is so that the importer can pay for the goods, typically to cover the period between receiving the goods and selling them on. Another structure allows the bank to release goods to the importer under trust receipts, which means the importer can use the goods immediately while the bank retains ownership until the importer settles the loan. In both of these cases the loan is secured against the goods being imported. Figure 7 shows how a loan against import works.

FIGURE 52:
Transaction process flow for a loan against import

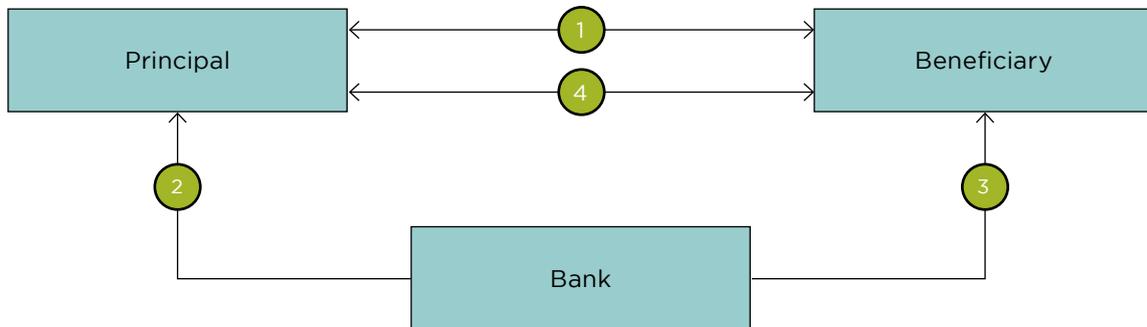


1. L/C or documentary collection structure set up
2. Exporter ships goods to importer
3. Exporter issues documents and sends them to the issuing bank
4. Issuing bank releases goods to the importer under trust receipts
5. Importer repays bank
6. Issuing bank transfer ownership of goods to the importer

Performance guarantees & performance standby letters of credit

Performance guarantees are a common way of guaranteeing contracts. They guarantee a seller's obligations to deliver and perform according to the contract, to act to mitigate any distrust between parties and to reduce cash outlay in situations where cash deposits are required. A standby L/C is written by a bank on behalf of a client and is used as a 'payment of last resort' should the client fail to fulfil a contractual obligation to a third party. Guarantees typically remain undrawn, unless an exporter fails to deliver or the importer defaults. They are most commonly used where the commercial relationship extends into the medium or long term, such as arrangements including services beyond delivery. Figure 8 shows how a performance guarantee works.

FIGURE 53:
Transaction process flow for a performance guarantee



1. Principal and beneficiary agree contract of sale
2. Principal requests a performance guarantee
3. Bank issues performance guarantee on behalf of the principal in favour of beneficiary
 - Can also be structured as an L/C
4. Exporter ships goods to importer; importer pays exporter
 - Principal is importer: guarantees the importer's payment for goods or services provided under the terms of the contract
 - Issued and delivered on behalf of principal at contract signing or before delivery

LIST OF ACRONYMS

AML	Anti-Money Laundering
AMA	Advanced Measurement Approach
APBP	Advance Payment Bond
AVC	Asset Value Correlation
BCBS	Basel Committee on Banking Supervision
BEICF	Business Environment and Internal Control Factor
BIS	Bank for International Settlements
bp(s)	Basis Point(s)
BPO	Bank Payment Obligation
CAGR	Compound Annual Growth Rate
CCF	Credit Conversion Factor
CIS	Commonwealth of Independent States
CRR	Capital Requirements Regulation
CSB	Customs Duty Bond
EAD	Exposure At Default
EC	European Commission
ECA	Export Credit Agency
ECB	European Central Bank
EL	Expected Loss
FI	Financial Institution
FNB	Financial Bond
GAB	Government Agency Bond
GDP	Gross Domestic Product
ICC	International Chamber of Commerce
IMF	International Monetary Fund
KYC	Know Your Customer
KYCC	Know Your Customer's Customer
L/C(s)	Letter(s) of credit
LCR	Liquidity Coverage Ratio
LGB	Legal Bonds
LGD	Loss given default
MDB	Multilateral Development Bank
MLT	Medium to Long-term
NSFR	Net Stable Funding Ratio
OECD	Organisation for Economic Co-operation and Development
ORMF	Operational Risk Management Framework
PD	Probability of Default
PEB	Performance Bond
PRA	Prudential Regulation Authority
PSE	Public Sector Entities
RTB	Retention/ Warranty/ Maintenance Board
RWA	Risk Weighted Assets
SME	Small and Medium-sized Enterprise
TEB	Tender/Bid-Bond
TF	Trade Finance
WTO	World Trade Organization

ICC BANKING COMMISSION

The world's essential rule-making body for the banking industry

ICC is the largest, most representative business organization in the world. Its global network comprises over 6 million companies, chambers of commerce and business associations in more than 130 countries, with interests spanning every sector of private enterprise.

With 80 years of experience and more than 600 members, the ICC Banking Commission – the largest Commission of ICC – has rightly gained a reputation as the most authoritative voice in the field of trade finance.

ABOUT THE INTERNATIONAL CHAMBER OF COMMERCE (ICC)

ICC is the largest, most representative business organization in the world. Its global network comprises over 6 million companies, chambers of commerce and business associations in more than 130 countries, with interests spanning every sector of private enterprise.

A world network of national committees keeps the ICC International Secretariat in Paris informed about national and regional business priorities. More than 2,000 experts drawn from ICC's member companies feed their knowledge and experience into crafting the ICC stance on specific business issues.

The United Nations, the World Trade Organization, the G20 and many other intergovernmental bodies, both international and regional, are kept in touch with the views of international business through ICC.

For more information please visit: www.iccwbo.org



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RULES

ICC Banking Commission produces universally accepted rules and guidelines for international banking practice. ICC rules on documentary credits, UCP 600, are the most successful privately drafted rules for trade ever developed, serving as the basis of USD2 trillion trade transactions a year.

POLICYMAKING

ICC Banking Commission is helping policy makers and standard setters to translate their vision into concrete programmes and regulations to enhance business practices throughout the world.

PUBLICATIONS AND MARKET INTELLIGENCE

Used by banking professionals and trade finance experts worldwide, ICC Banking Commission publications and market intelligence is the industry's most reputable and reliable source of guidance to bankers and practitioners in a broad range of fields.

DISPUTE RESOLUTION

ICC Banking Commission and ICC International Centre for Expertise administer the ICC Rules for Documentary Instruments Dispute Resolution Expertise (DOCDEX) to facilitate the rapid settlement of disputes arising in banking.

EDUCATION AND CERTIFICATION

Over ten thousand people in over 100 countries have trained and certified in international trade finance using our suite of ICC approved online training services and certification facilities.

SPECIALIZED TRAINING AND EVENTS

In addition to its bi-annual summit gathering 300+ international delegates every six months, the ICC Banking Commission organizes regular seminars and conferences around the world, in partnerships with ICC National Committees and other sponsors.

STRATEGIC PARTNERSHIPS

Well-established collaboration with leading policy makers and trade association, including WTO (World Trade Organization), ADB (Asian Development Bank), Berne Union, EBRD (European Bank for Reconstruction and Development), IDB (Inter-American Development Bank), IFC (International Finance Corporation), IMF (International Monetary Fund), SWIFT, the World Bank and others.