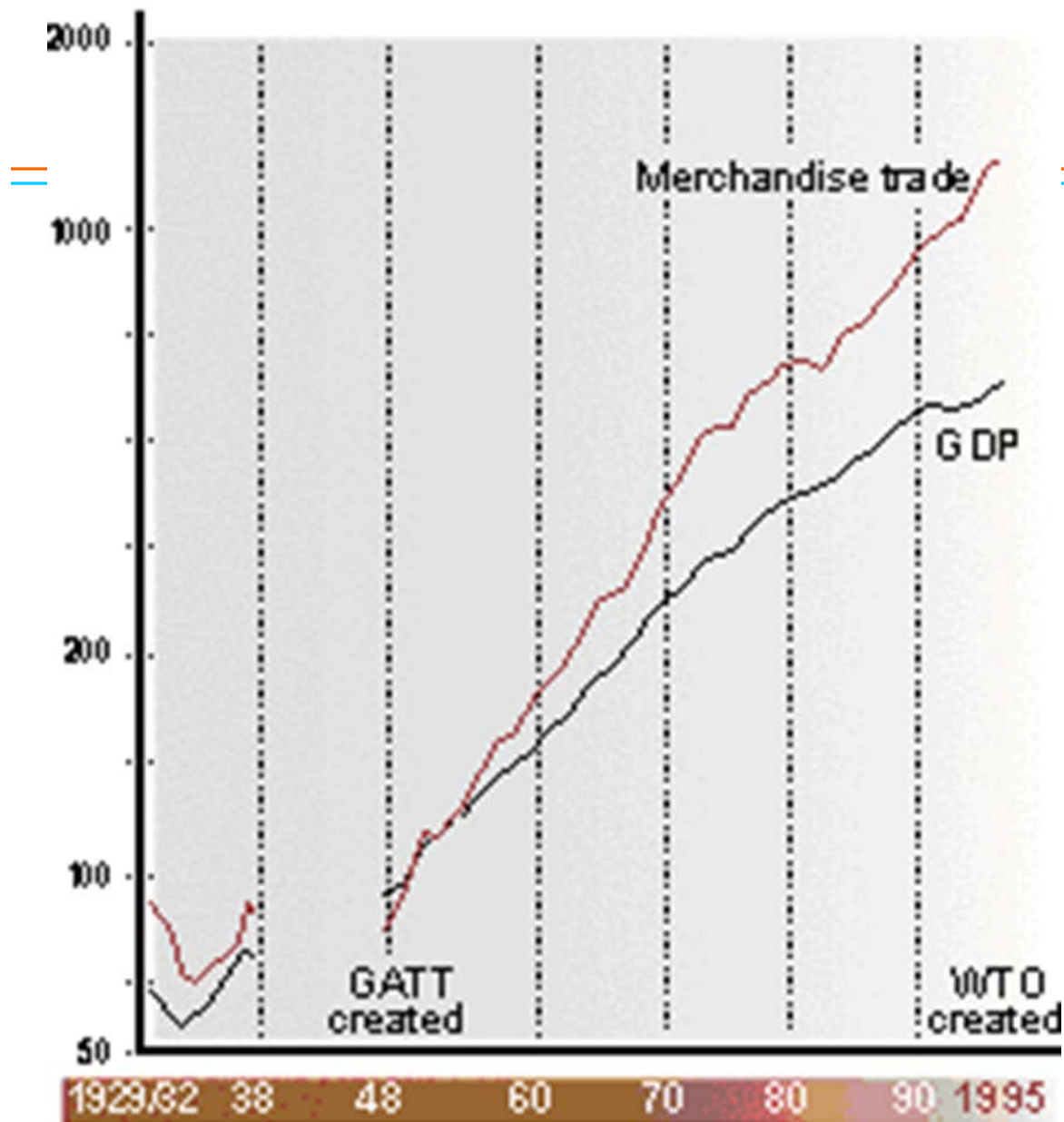
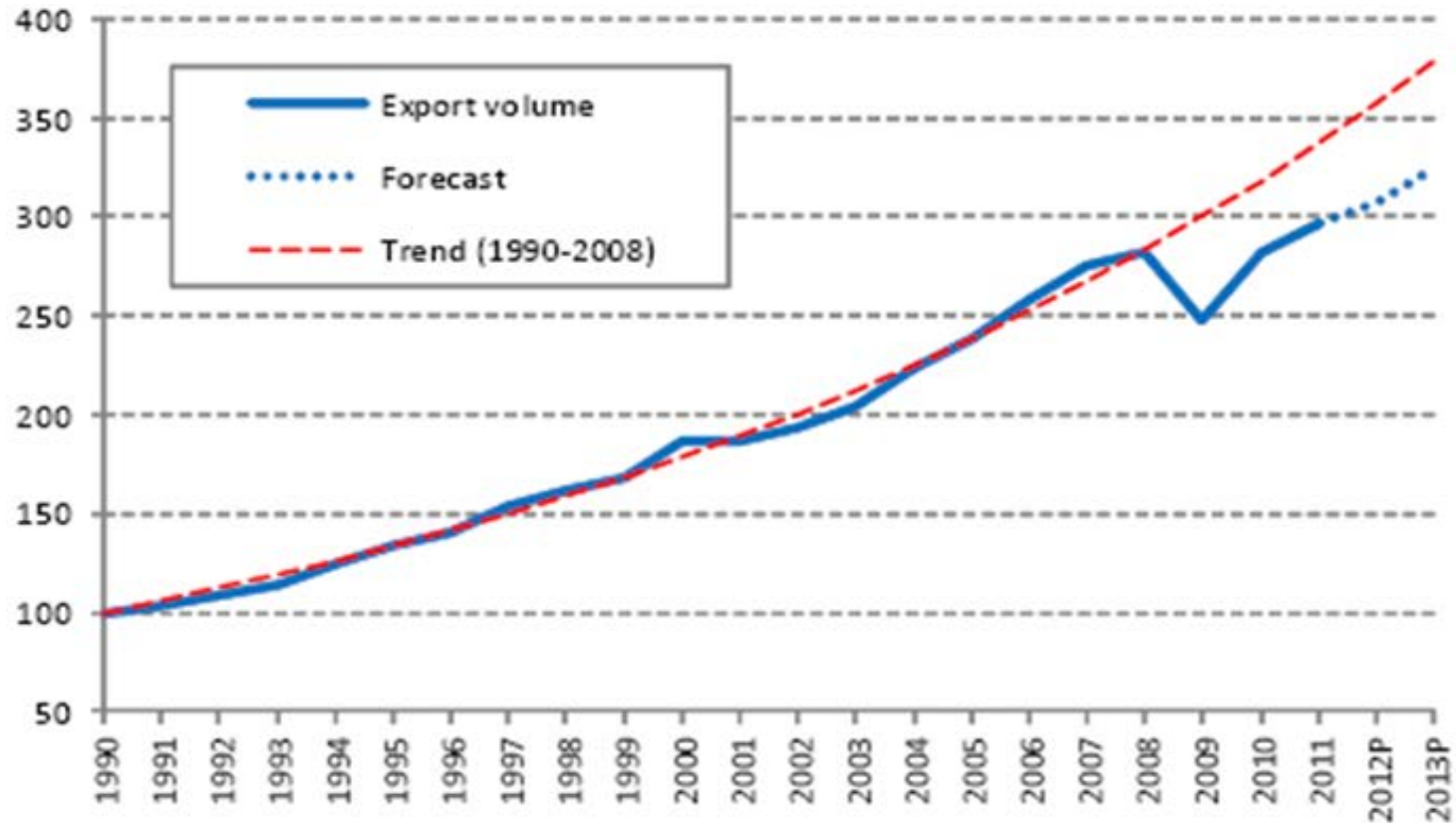

Trade finance and the ICC Global Risks Register:
Can we declare the Trade Finance 'Basel III crisis' over?

2nd Annual Marine Money Forum
26 June 2014
Geneva



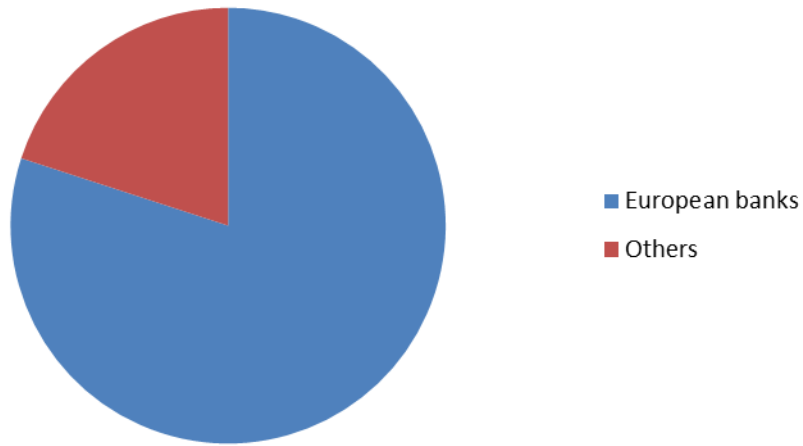
80-90% of world trade relies on trade finance a US\$15 trillion -- WTO

Financial crisis: first post-war decline in trade Contributing factor was the freeze in trade finance

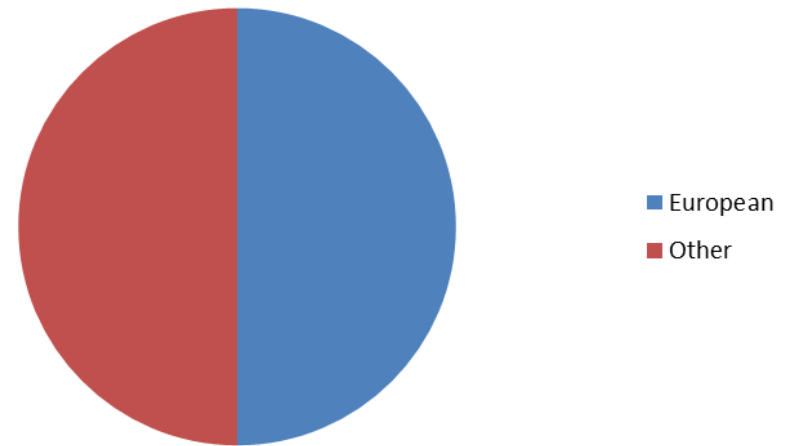


Trade Finance market share of European banks (est)

Before crisis




After



Culprit? – Trade finance ignored / unfairly treated given its low loss record: perceived threat to Trade Finance




BANK FOR INTERNATIONAL SETTLEMENTS
Restricted

The Basel III reform of bank capital regulation

<p>New capital ratios</p> <ul style="list-style-type: none"> • Common equity • Tier 1 • Total capital • Capital conservation buffer 	<p>Raising the quality of capital</p> <ul style="list-style-type: none"> • Focus on common equity • Stricter criteria for Tier 1 • Harmonised deductions from capital 	<p>Macroprudential overlay</p> <div style="border: 1px solid black; padding: 5px; margin-bottom: 5px;"> <p style="text-align: center;">Leverage ratio</p> </div> <p>Mitigating procyclicality</p> <ul style="list-style-type: none"> • Countercyclical buffer
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Capital ratio = $\frac{\text{Capital}}{\text{Risk-weighted assets}}$

<p>Enhancing risk coverage</p> <ul style="list-style-type: none"> • Securitisation products • Trading book • Counterparty credit risk 	<p>Mitigating systemic risk (work in progress)</p> <ul style="list-style-type: none"> • Systemic capital surcharge for SIFIs • Contingent capital • Bail-in debt • OTC derivatives
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5

No way to prove it – the Basel Committee operates on data



ICC
BANKING
COMMISSION

GUIDING
INTERNATIONAL
BANKING PRACTICE

DRIVING
CHANGE IN
TRADE FINANCE

2013

GLOBAL RISKS TRADE FINANCE REPORT

- A report from the ICC Trade Register
- Performance data on short-term trade finance and medium and long-term export finance
- In-depth analysis on markets and products
- Historical information ranging back to 2005 by year, country, and product

24 banks contributed data

**Bank of America
Merrill Lynch**

Bank of China

Barclays

BBVA

BNP Paribas

Citibank

Commerzbank

Crédit Agricole CIB

Deutsche Bank

HSBC

KfW

ING

J.P. Morgan Chase

Royal Bank of Scotland

**Santander Global
Banking**

Société Générale

Standard Chartered Bank

Standard Bank Group

**Sumitomo Mitsui
Banking Corp**

UniCredit

Wells Fargo

8.5 million transactions; US\$4 trillion in volume

Data to show low loss occurrence

FIGURE 1

Analysis of short-term trade finance data in the Trade Register

TOTAL 2008-11	TRANSACTION DEFAULT RATE	DEFAULTED TRANSACTION LOSS RATE	M (IMPLIED, DAYS)	SPECIFIC TXN-LEVEL LOSS RATE
Import L/Cs	0.020%	42%	80	0.008%
Export Confirmed L/Cs	0.016%	68%	70	0.011%
Loans for Import	0.016%	64%	110	0.010%
Loans for Export: Bank risk	0.029%	73%	140	0.021%
Loans for Export: Corporate risk	0.021%	57%	70	0.012%
Performance Guarantees	0.034%	85%	110	0.029%
Total	0.021%	57%	90	0.012%

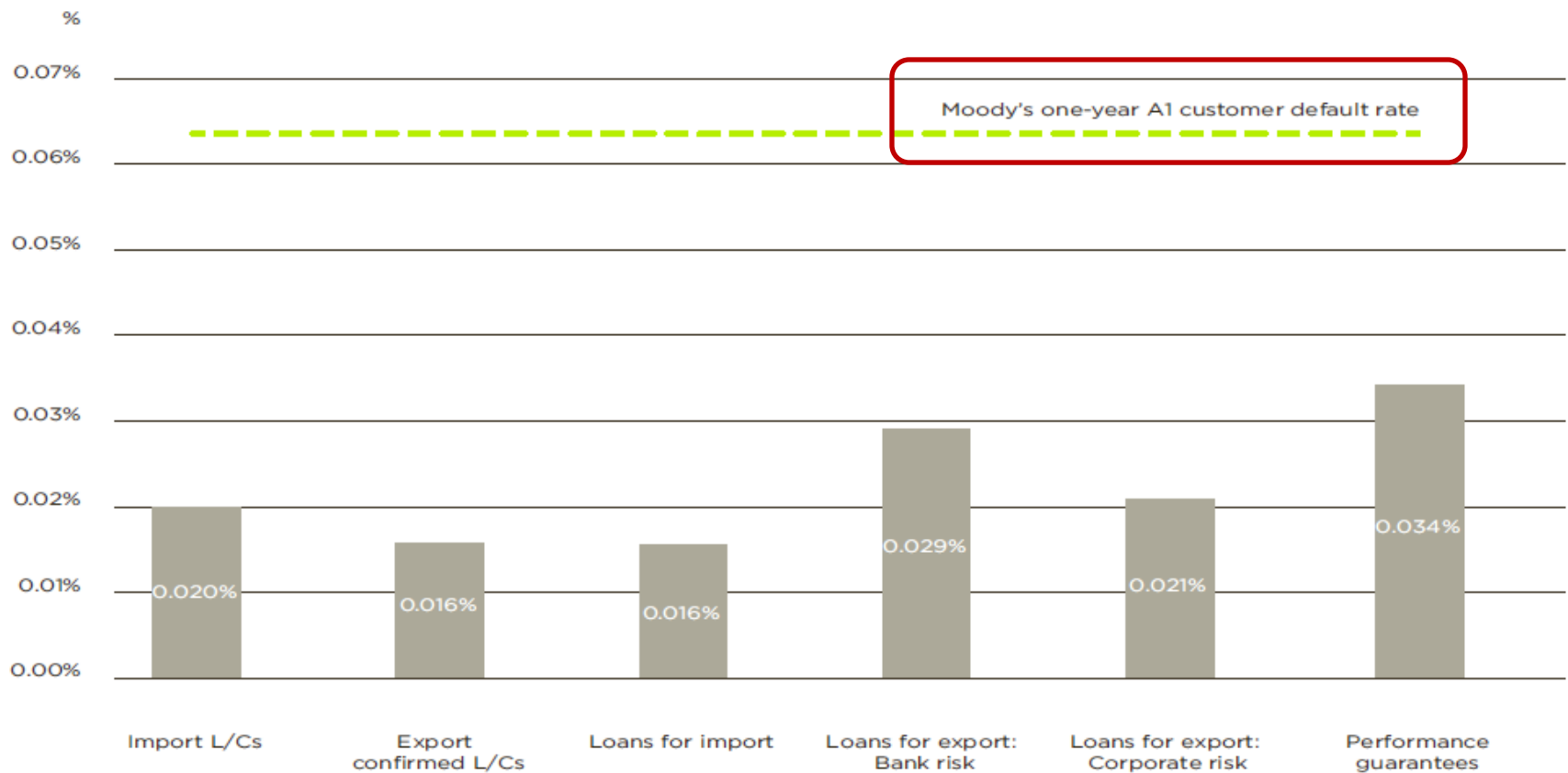
The total average and the product-level and transaction-level loss rates (farthest right column on the table above) compare favourably with the average observed annual credit loss rate of 1.49% for Moody's customers over the same period.

FIGURE 10

Exposure and default levels by product, 2008-11

TOTAL 2008-11	EXPOSURE (USD MM)	DEFAULTED EXPOSURE (USD MM)	EXPOSURE- WEIGHTED DEFAULT RATE
Import L/Cs	873,339	429	0.049%
Export Confirmed L/Cs	228,118	156	0.068%
Loans for Import	628,615	281	0.045%
Loans for Export: Bank risk	435,222	167	0.038%
Loans for Export: Corporate risk	540,043	196	0.036%
Performance Guarantees	627,769	66	0.010%
Total	3,333,106	1,296	0.039%

Transaction-level default rates by product versus Moody's one year default rate, 2008-11



Even had to statistically prove it is short-term

Implied maturity by product, 2008-11

2008-11	IMPLIED MATURITY (DAYS)
Import L/Cs	80
Export Confirmed L/Cs	70
Loans for Import	110
Loans for Export: Bank risk	140
Loans for Export: Corporate risk	70
Performance Guarantees	110
Total	90

A number of improvement to reduce potential capital charges

Basel III recognizes short-term nature of TF
Can use maturity < one year

More favourable Leverage Ratio
calculation

More favourable Liquidity Ratio treatment

In fact good / improved Basel III & Capital Requirements Directive (CRD) IV treatment of trade finance

Basel III favours short-term business;
changes recognised low loss feature of TF

CRD IV always kind to trade finance

No evidence that any bank has reduced or
withdrawn from TF because of regulations

In fact evidence of the opposite – an attractive
Activity from a capital reserve perspective

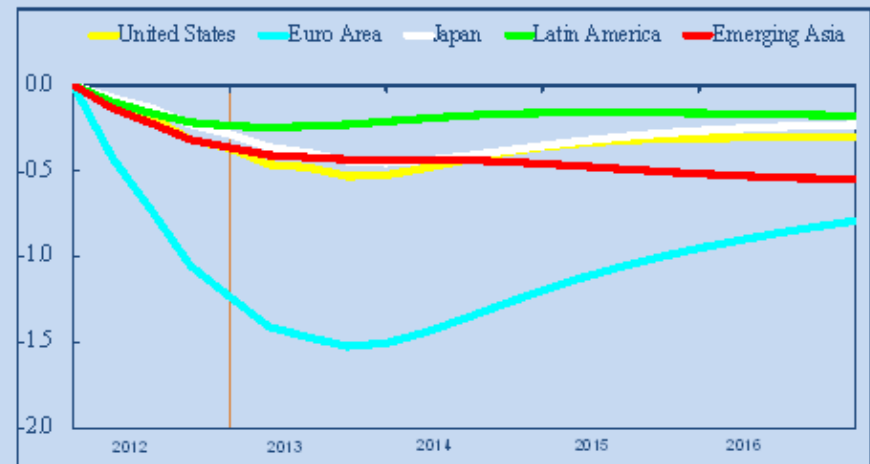
Real culprit: The Euro crisis...



Brake 2. Bank Deleveraging in Europe



Decrease in Output
(percent deviation from no deleveraging scenario)



Source: IMF staff calculations.

...and strength is weakness



- Short-term
- Low risk; few losses
- Lower capital requirement



- Short term
- US\$ business; euro deposit institutions
- Easy to run off or sell
- Perfect tool to shrink balance sheet

The strong get stronger...



GLENCORE



MERCURIA

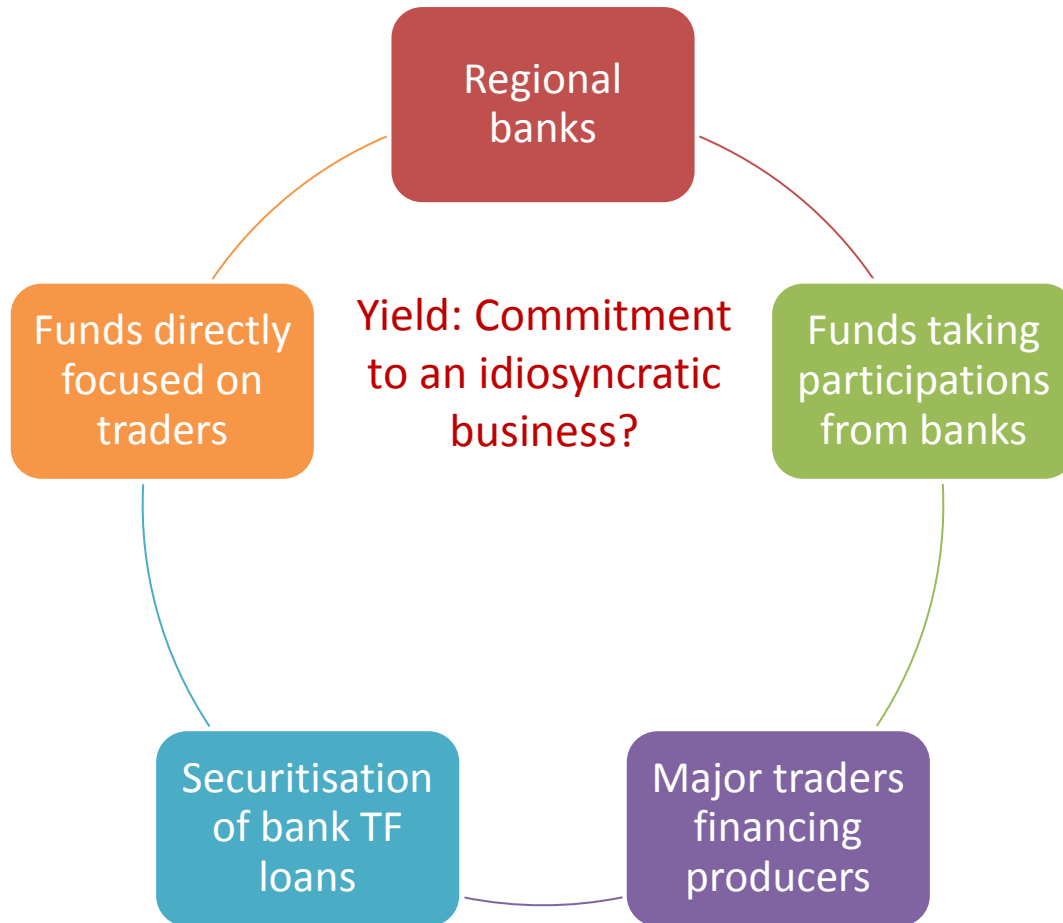


Two essential needs

Bank
balance
sheet /
capital
relief

Facilities
for smaller
traders no
longer
serviced
by banks

Alternative TF players increasing role



Conclusion: *Concerns of the negative effects of Basel III should be laid to rest*

Merci beaucoup