

AREAS OF WORK

Rules & Guidelines



UCP 600 are the most successful privately drafted rules for trade ever developed: they serve as the basis for **US\$2 trillion** trade transactions a year

Market Intelligence



ICC Trade Register

23 contributing banks
>13 million transactions from 2007 to 2014

ICC Global Survey on Trade Finance

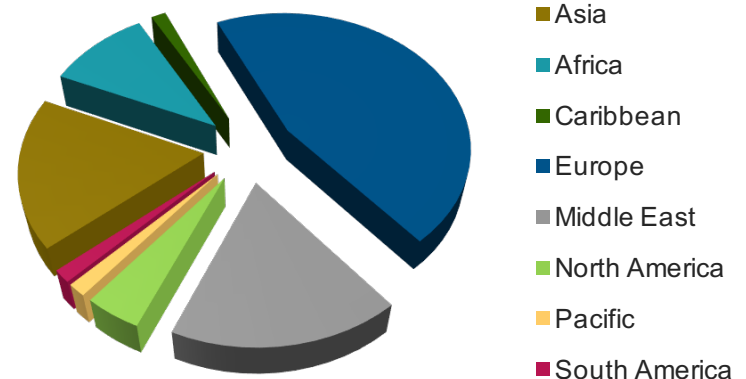
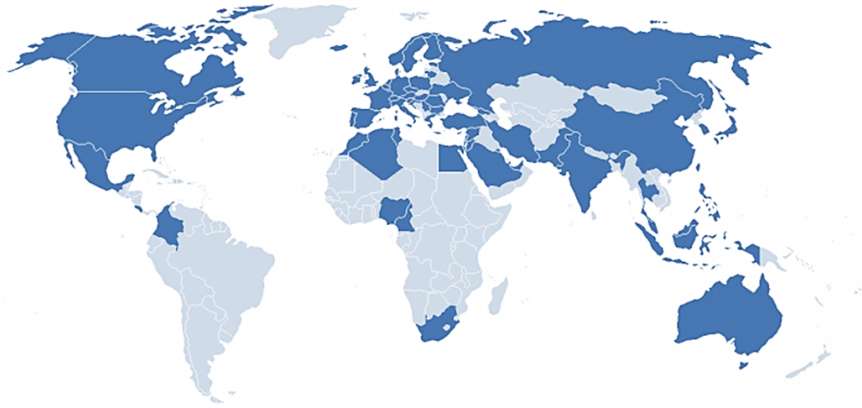
482 respondent banks across **112** countries
16 institutional contributing partners

Policy & Regulatory



Involvement in the **B20 process** – a business-driven process that runs in parallel to the **G20**

REACH & GLOBAL NETWORK



A truly representative global forum

More than 600 institutional members spread over + 100 countries

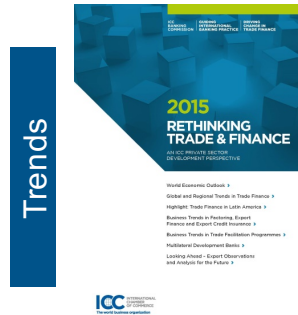
LEADING MARKET INTELLIGENCE

ICC Market Intelligence Products help leaders make informed decisions on World Trade Finance



ICC Trade Register

Measuring **Global Risks** in Trade Finance Markets



ICC Global Survey on Trade & Finance

Measuring **Performance** and Shifts in Trade Finance Markets



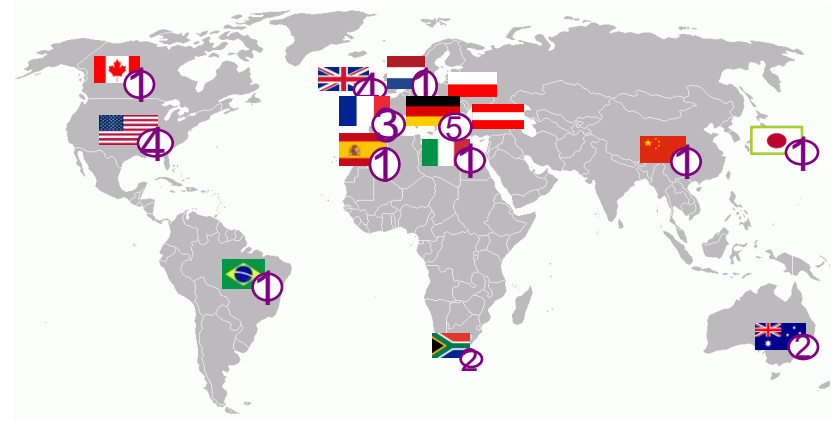
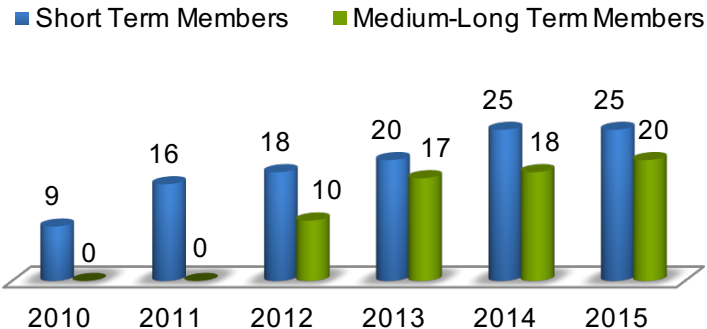
ICC/IMF Market Snapshot

Snapshot of the Current **Status** of Trade Finance Markets

ICC TRADE REGISTER: GENERAL OVERVIEW

- Trade & Export Finance has been considered long-time as a low risk business, which explains some mitigation factors granted in Basel I (i.e. Credit Conversions Factors for LC's and guarantees ranging from 20% - 50%).
- The **goal** is to provide an objective, industry-wide source of Trade Finance (TF) and Export Finance (EF) related risk and loss data.
- Some figures: 8.6 mn short-term TF transactions & 26'000 medium/long-term transactions

25 Member Banks, Urgent need to grow



ICC TRADE REGISTER

Background and purpose

1. Present the global trade finance industry's perspectives on risks in trade finance
 - First ever quantitative analysis of Trade & Export Finance
 - Establishment of representative data set
2. Increase understanding of trade finance instruments amongst industry participants
3. Promote understanding of international regulations affecting bank capital, liquidity and leverage requirements for Trade and Export Finance as part of the ICC banking commission's commitment to effective and collaborative advocacy.

ICC TRADE REGISTER

Scope of products covered:

➤ Short-term Trade Register

- Import Letters of Credit (L/C)
- Confirmed Export L/Cs
- Loans for Import/Export
- Performance Guarantees and Performance Standby L/Cs

➤ Medium to Long-term trade products

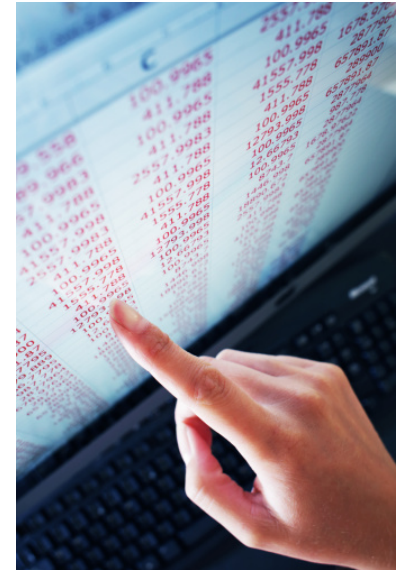
- A loan backed by an official Export Credit Agency (ECA), representing the faith and credit of their respective government
- The ECA is based in a select few OECD member countries
- Protection purchased covers commercial and/or political risk



WHAT HAS CHANGED IN THIS YEAR'S REPORT

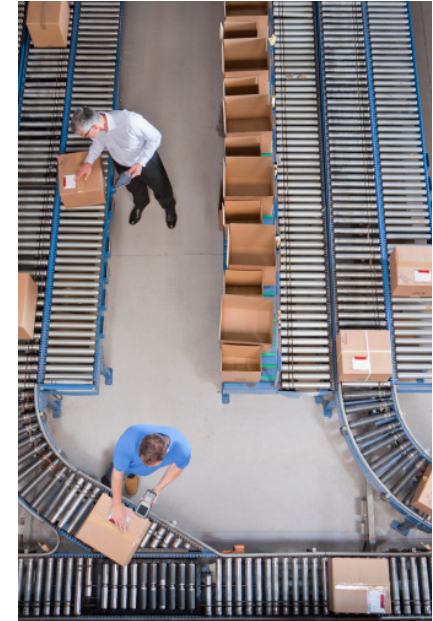
- **Greater alignment with the regulatory capital framework in particular:**
 - Probability of default(PD) is reported at an obligor level and compared with transaction level default rates
 - Loss-given-default(LGD) values are calculated at a product level based on transactional data
 - Increased insight into exposure-at-default(EAD) through case studies
 - Expected Loss(EL) numbers are consistent with the regulatory rules and regulations

- **Data quantity and quality:**
 - Significantly larger data set from more banks and more data points
 - More complete data sets including geographical breakdowns
 - Enhanced consistency of data items across submitted data sets
 - Improved data gathering and processing systems within banks

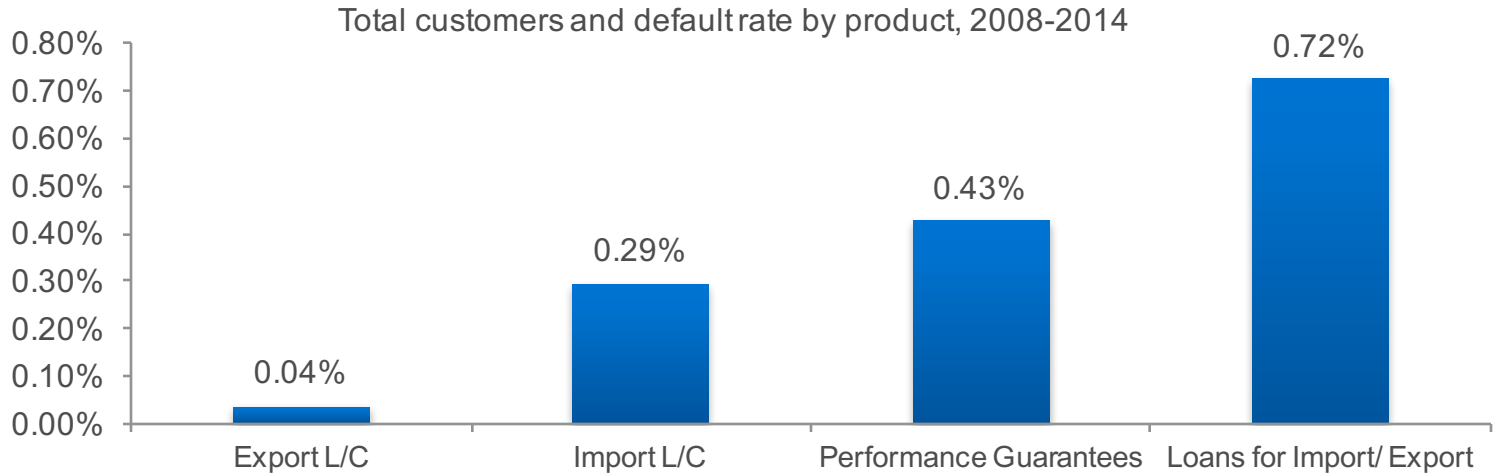


WHERE DO WE GO FROM HERE

- Broadening the product scope to include supply chain finance and receivables finance(RF)
- Broadening the scope of the medium and long-term(MLT) trade register to include non-OECD ECA transactions
- Broadening risk scope to include operational risk
- Greater alignment with modelling of Loss-given-default (LGD) and Exposure-at-default (EAD) parameters

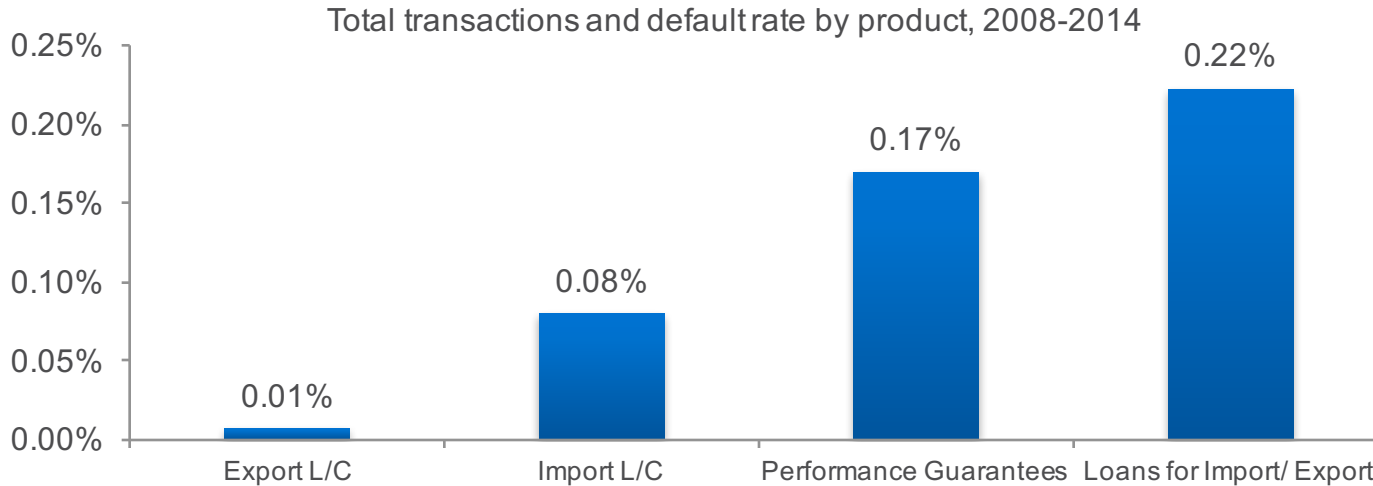


LOW DEFAULT RATES ACROSS ALL PRODUCTS AT CUSTOMER LEVEL



Customers	92,881	113,026	181,626	145,021
Customer defaults	36	333	773	1,050

LOW DEFAULT RATES ACROSS ALL PRODUCTS AT TRANSACTION LEVEL



Transactions	1,847,734	3,164,200	1,615,351	6,816,742
Transaction defaults	121	2,509	2,736	15,176

HOW SAFE IS TRADE FINANCE COMPARED TO OTHER INDUSTRY PRODUCTS?

Low default rate across all products at Transaction level

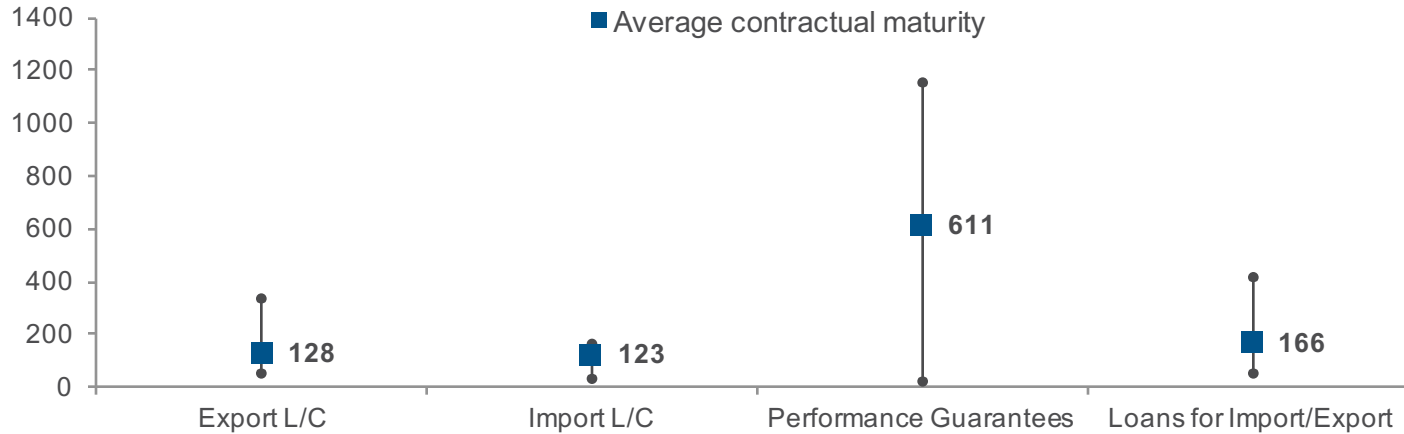
PRODUCT	TOTAL # TRANSACTIONS	TOTAL # DEFAULTED TRANSACTIONS	DEFAULT RATE
1. Export L/C	1,847,734	121	0.01%
2. Import L/C	3,164,200	2,509	0.08%
3. Performance Guarantees	1,615,351	2,736	0.17%
4. Loans for Import/Export	6,816,742	15,176	0.22%

Low default rate across all products at Obligor level

PRODUCT	TOTAL # OBLIGORS	TOTAL # DEFAULTED OBLIGORS	OBLIGOR DEFAULT RATE	MOODY'S RATING FOR COMPARABLE DEFAULT RATE
1. Export L/C	92,881	36	0.04%	Aaa-Aa
2. Import L/C	113,026	333	0.29%	Baa
3. Performance Guarantees	181,626	773	0.43%	Baa-Ba
4. Loans for Import/Export	145,021	1,050	0.72%	Ba

Clear and evolving illustration of the low-risk nature of Trade Finance

AVERAGE REPORTED MATURITY BY PRODUCT, 2008-2014, WITHIN EXPECTED RANGE



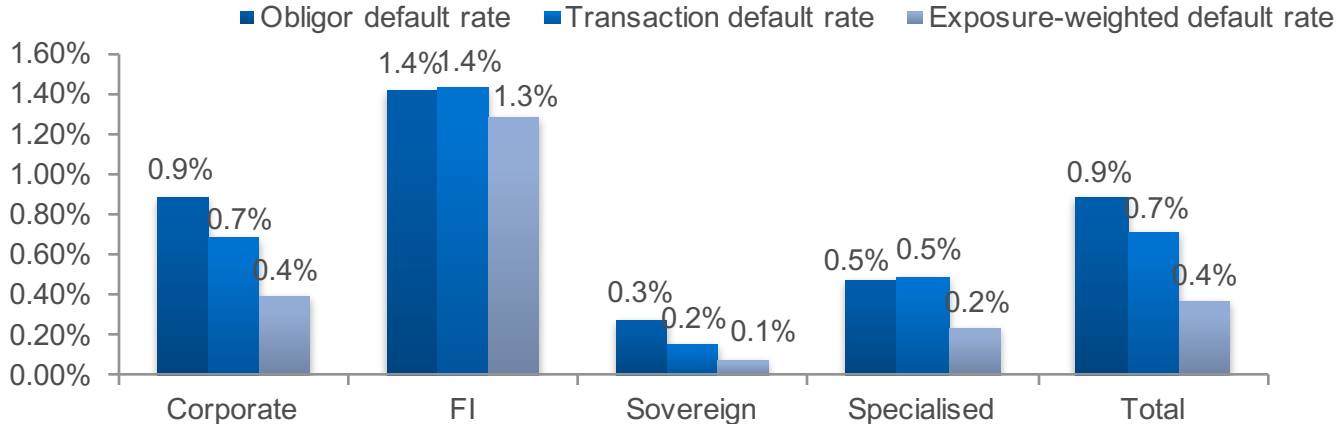
Weighted average contractual maturity (days)	128	123	611	166
Range of average maturity across banks	52 – 335	31 – 162	27 – 1,155	52 - 417

WHAT DO THE LOSS GIVEN DEFAULT (LGD) NUMBERS TELL US

Exposure-weighted LGD by product, 2008-2012

Product	1- Recovery Rate	Time to recovery (years)	Discounts on recoveries and costs(2%)			LGD		
			Discount rate	5%	9%	13%	5%	9%
Export L/C	38%	0.49	3%	5%	6%	41%	42%	44%
Import L/C	26%	0.19	3%	3%	4%	29%	29%	30%
Performance Guarantees	49%	0.58	3%	4%	5%	53%	54%	55%
Loans for Import/Export	30%	0.65	5%	7%	9%	35%	38%	40%

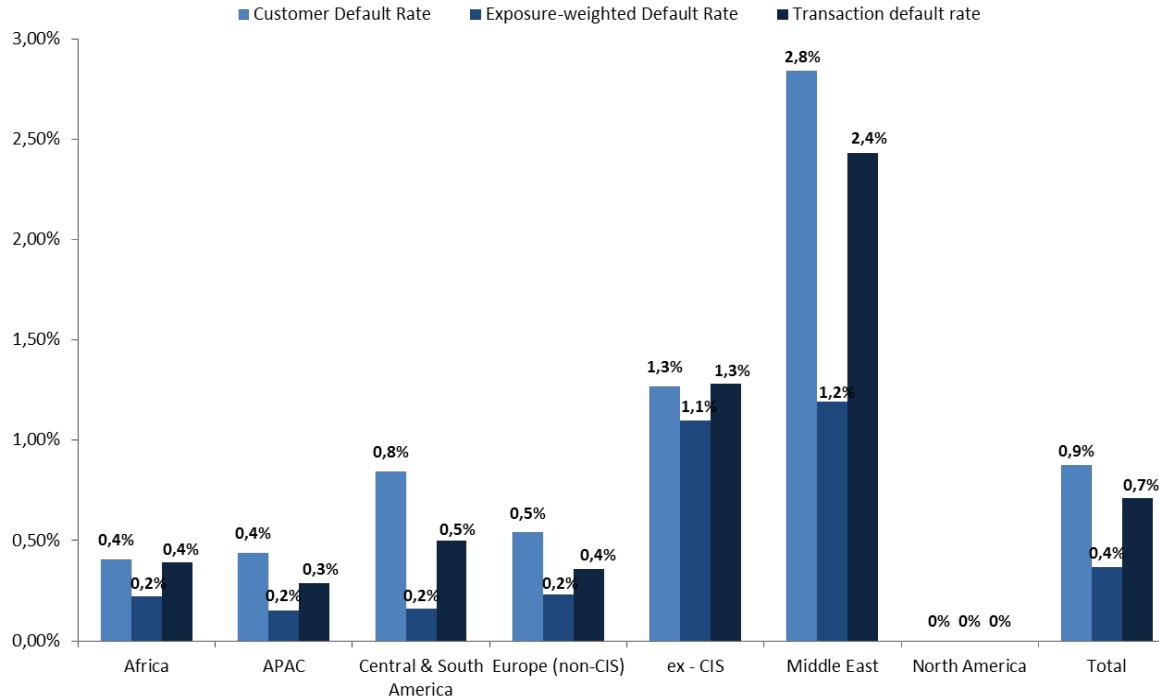
MEDIUM - LONG TERM FINANCE: LOW DEFAULT RATES BY ASSET



	Customers	Customer defaults	Default rate	Exposure-weighted Default Rate
Corporate	7,047	63	0.89%	0.39%
FI	3,460	49	1.42%	1.28%
Sovereign	1,814	5	0.28%	0.08%
Specialised	2,490	12	0.48%	0.23%
Total	14,705	129	0.88%	0.37%

Specialized Finance include: Aircraft, Shipping and Project Finance

MEDIUM - LONG TERM FINANCE: LOW DEFAULT RATES BY REGION



The Iran sanctions are reflected in the fact that Middle East is the region with the highest customer default

MEDIUM- LONG TERM TRADE FINANCE: MATURITY BY ASSET CLASS

Average maturity by asset category, 2007–2014

Asset Categories	#5 years or less	#5-10 years	#10-15 years	#15 years or more	Un-weighted average tenor	Exposure-weighted average tenor
Corporate	13%	38%	43%	6%	10.0	11.9
FI	23%	36%	23%	17%	10.1	11.7
Sovereign	3%	24%	53%	20%	12.7	13.9
Specialized	2%	21%	69%	8%	12.0	12.6
Total	12%	32%	45%	11%	10.8	12.4

ICC TRADE REGISTER

Estimated EL for MLT Trade Finance products using exposure weighted (customer) default rate, 2007–2014

	Exposure – Weighted customer default rate	EAD	LGD	EL
Expected	0.37%	100%	5.2%	0.019%
Observed	0.37%	100%	4.9%	0.018%

ACHIEVEMENTS FROM THE ICC TRADE REGISTER

Based on evidence from the ICC Trade Register, TF industry called to soften Basel III rules on trade finance with some success in a few areas:

Requested amendments	Actual amendments
Trade finance defined	Under Capital Requirements Regulation (CRR) Trade Finance (TF) is defined for the first time. This provides clarity in terms of what products fall within the ambit of TF. Basel does not.
Exemption of trade instruments from the one-year maturity floor	The Basel committee waived the one year maturity floor for trade-related letters of credit in October, 2011
Off balance sheet items, such as standby letters of credit and trade letters of credit, are subject to a 100% credit conversion factor (CCF) when calculating the leverage ratio, reflecting the likelihood that these positions become on balance sheet items.	Maintain the CCF at 20% for trade-related contingencies (50% for transaction-related contingencies)

ICC GLOBAL SURVEY ON TRADE & FINANCE 2015

2015 Global Survey at a glance



World Economic Outlook >
Global and Regional Trends in Trade Finance >
Highlight: Trade Finance in Latin America >
Business Trends in Factoring, Export
Finance and Export Credit Insurance >
Business Trends in Trade Facilitation Programmes >
Multilateral Development Banks >
Looking Ahead – Expert Observations
and Analysis for the Future >

7th edition

Well-established market intelligence tool for the whole trade & finance industry, expanding year by year in scope, worldwide representation and relevance

482 Survey respondent banks across 112 countries

+60% in participation compared to 2014 broad geographical reach enhances the richness of the data collected

16 institutional and contributing partners

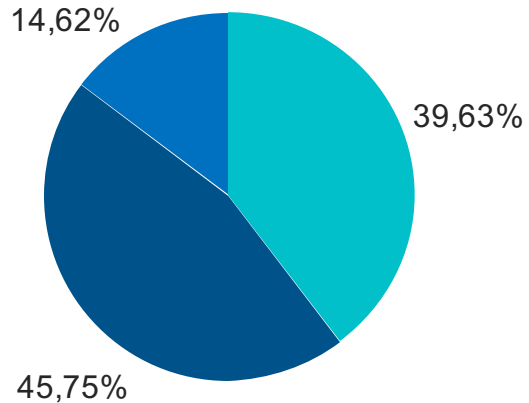
Industry actors from around the world pool their knowledge to develop a valuable global view on the pressing issues of today in trade finance and beyond

Report released 29 September 2015

ICC GLOBAL SURVEY ON TRADE & FINANCE 2015: DISTRIBUTION OF PROPOSED/REJECTED TRADE TRANSACTIONS

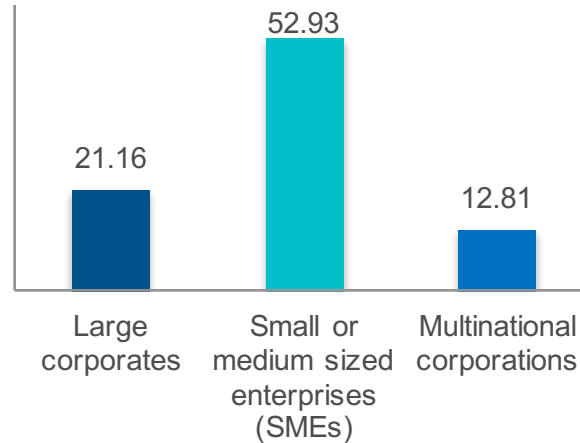
SMEs continue to be disadvantaged in trade finance transactions

Proposed transactions by client Segment

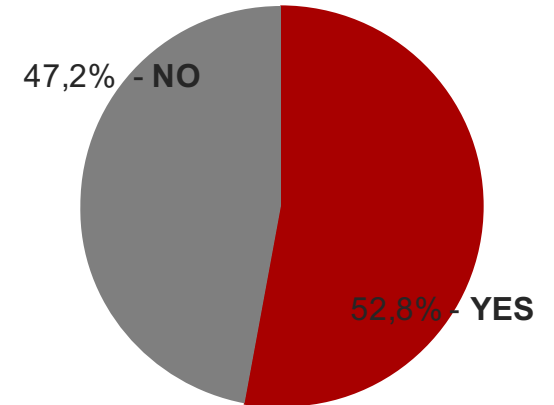


■ Large corporates ■ SMEs ■ Multinationals

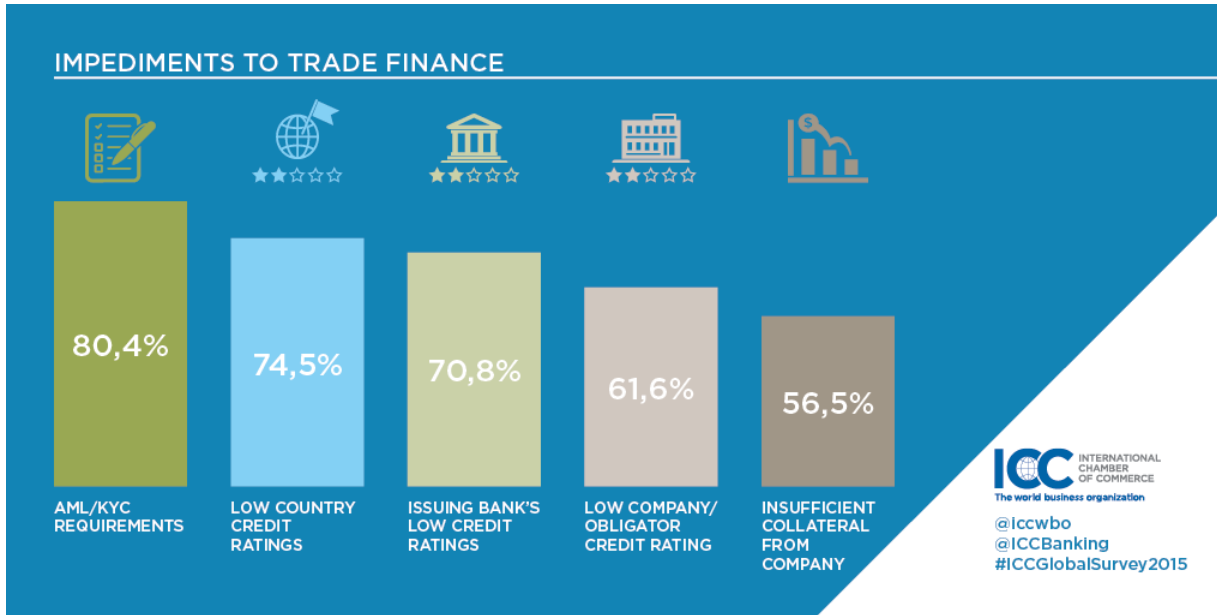
Rejected transactions by client segment



Do you believe that there is a shortfall of trade finance globally?



ICC GLOBAL SURVEY ON TRADE & FINANCE 2015 : IMPACT OF COMPLIANCE



The impact of compliance - top of the list in impediments to trade finance

ICC GLOBAL SURVEY ON TRADE & FINANCE 2015

2016 Global Survey in preparation



ICC GLOBAL SURVEY ON TRADE FINANCE 2016
Industry insight and influence

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ICC INTERNATIONAL
CHAMBER
OF COMMERCE
The world business organization
The world's essential rule-making
body for the banking industry

The graphic features a world map with blue circular markers connected by lines, representing global connectivity. The ICC logo and text are positioned in the bottom left corner of the graphic.

GLOBAL AND REGIONAL TRENDS IN TRADE FINANCE

Trends across Latin America

- Overall, Latin America reported a trade deficit for the second consecutive year in 2014
- Latin American trade deficit is mainly due to the fall in the trade surplus in Argentina, Chile, and Venezuela, and the widening of the trade deficits in Brazil, Columbia, and Peru
- De-risking and regulatory changes are adversely affecting trade finance flows and financial inclusion, particularly in higher risk emerging economies in Latin America
- According to the Florida International Bankers Association (FIBA): Basel III reforms have created some unintended consequences in Latin America, where a risk weight of up to 150% may be required on short-term loans related to trade finance. By comparison, the risk weight for developed countries runs closer to 20%



KEY MESSAGE ON TRADE FINANCE IN LATIN AMERICA

The impact of regulation across Latin America

- De-risking and regulatory changes are adversely affecting trade finance flows and financial inclusion, particularly in higher risk emerging economies in Latin America
- In Latin America, a risk weight of up to 150% may be required on short term loans related to trade finance. By comparison, the weight for developed countries runs closer to 20%
- SMEs have been most severely impacted – given they represent approximately 80% of companies involved in trade in Latin America, but account for less than 15% of total trade financing



SUPPLY CHAIN FINANCE

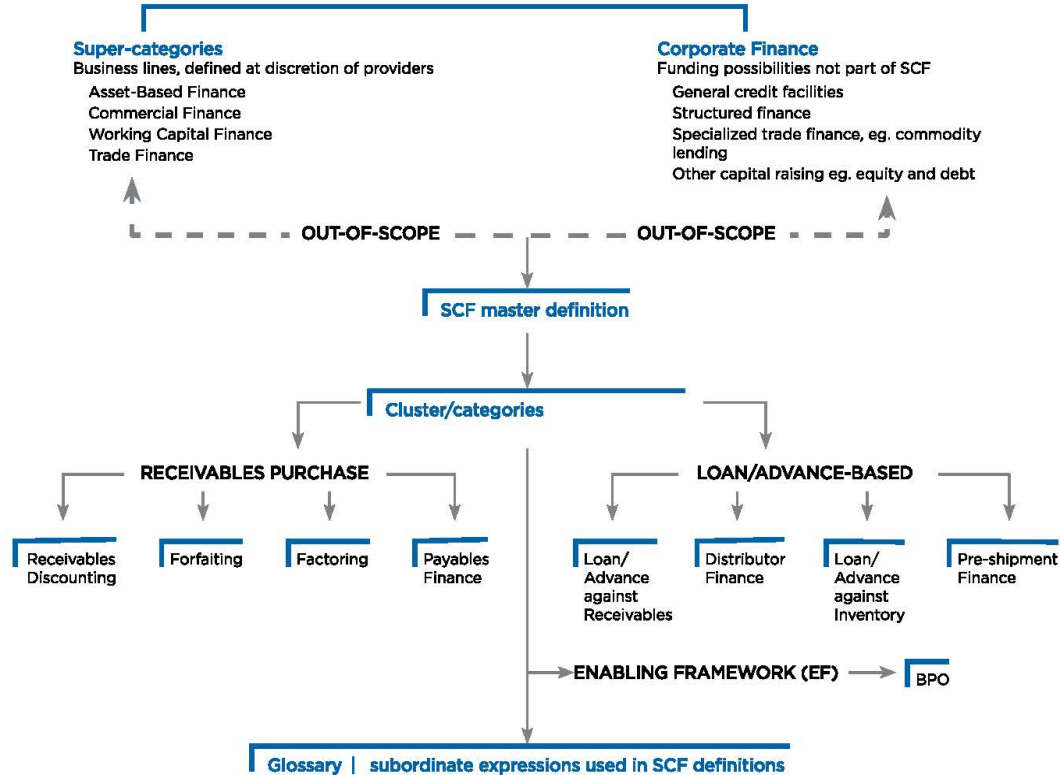
- A cross-industry global drafting initiative aimed at developing a set of common definitions, terminology and nomenclature around Supply Chain Finance.
- The objective is to standardize and harmonize the existing Supply Chain Finance market terminology to make it operational and usable in daily practice by banks and non-banks when processing, financing and mitigating risk in trade transactions. Issued as a "living" document, the definitions will be widely disseminated to promote the global adoption of the suggested terminology and updated when deemed relevant to remain aligned with market developments.



For a strong future.

International Trade & Forfaiting Association

SUPPLY CHAIN FINANCE



SUPPLY CHAIN FINANCE

Download your copy: bit.do/DefinitionsSCF



ICC Banking Commission

*The leading and trusted
authority for trade finance*

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