

ICC Banking Commission

Technical Advisory Briefing No. 11 Subject: Definition of Trade Finance

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ISSUE

It has been noted by the ICC Banking Commission Steering Committee (SteerCo) that there is no consensual agreement on the definition of “Trade Finance” by regulators on a global basis. The concern is that a misleading and oversimplified definition of trade finance may result in unintended negative consequences for the business. For instance, tenor, maturity, and destination of goods are not elements to define what is trade finance. Accordingly, the SteerCo has recommended the release of this Briefing Paper which defines, from an ICC perspective, how trade finance is to be interpreted.

INTRODUCTION

Whether domestic or cross-border, trade finance can be both short-term and medium/long-term. Key factors include:

- at least three key players: the seller of goods or provider of services, the buyer, and the financial institution(s) providing the financing and / or risk mitigation;
- covering a specific underlying trade transaction with a clearly identified flow of goods or performance of services, regardless of maturity;
- facilitating risk mitigation and settlement, supporting the needs of both buyers and sellers.

Guarantees are considered as trade finance instruments only if the underlying transaction involves trade flows of goods or performance of services, regardless of maturity, explicitly excluding off-balance sheet instruments having the character of credit substitutes. Products and solutions will differ from region to region but the basics are similar. Depending on the applicable region or country, various legal and regulatory issues may need to be taken into consideration.

ANALYSIS

Various market definitions have been published in the past. It is crucial to emphasise that any definition must adhere to a straightforward and succinct style, ensuring it remains accessible and comprehensible to a wide audience. This means using plain language, avoiding technical jargon or complex terms, and keeping the description concise to facilitate easy understanding for readers, regardless of their background knowledge on the topic.

SUMMARY

Trade finance is a financial service facilitating the real economy, enabling businesses to finance, monetise, risk mitigate and settle trade flows, thus supporting the movement of goods and/or the performance of services regardless of maturity, both internationally and domestically.

This briefing is educational only