50p

THE TXF CHRONICLE

TXF Chronicle Volume 2, 2015

IN THIS ISSUE

COMMODITY TRADERS BEWARE

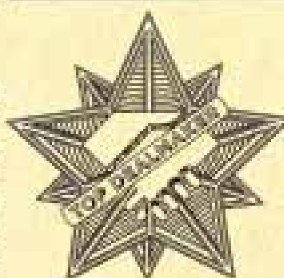
TXF examines the proposed new changes to OECD rules and the impact on commodity traders, and their disclosure policies

Breaking down the barriers of global trade

Read our in-depth feature exploring the development of the mega-regional trade agreements currently under negotiation and the potential implications for global trade. We also speak to HSBC's senior trade economist, Doug Lippoldt, about the forecasted growth patterns of trade volumes.

The saga of US Ex-Im

Read our special feature discussing how the US export credit agency's charter came to expire on 30 June, what's likely to come next, and what can be done to bring the bank back from the dead.



We reveal the top dealmakers for the First Half

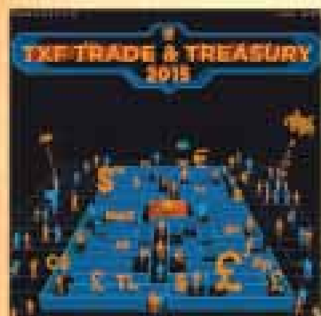
Which individuals have concluded the most transactions so far this year?

The ultimate TXF guide to supply chain finance providers

Cut through the noise. Your roadmap to understanding the different products, features and innovations offered by a multitude of different providers.

Introducing our 'Best in Class'

TXF is delighted to reveal the winners of our 2015 Best in Class Awards for the export and commodity finance industries. Check out our comprehensive write-up of the awards ceremonies, which took place at our Amsterdam and Paris conferences earlier this year. Voting through tagmydeals, the industry rewarded the institutions that have grafted through blood, sweat and tears in recent times to put together the most impressive transactions in their respective fields.



A sea change in trade

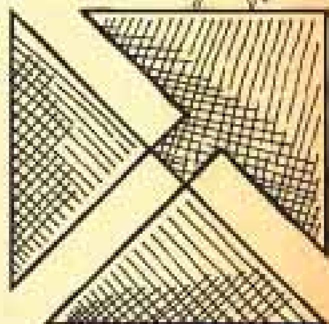
Read our exclusive feature on the key evolutions driving change in trade & supply chain finance - then join the debate at our Trade & Treasury conference in Frankfurt

SUBSCRIBE TODAY

ADVERTISEMENT

TXF NEWS

YOUR NUMBER ONE SOURCE FOR ALL TRADE AND EXPORT FINANCE NEWS



PIPELINES NOT PIPE DREAMS.

Unique opportunities require tailored solutions.

Our award-winning* capital financing team provides bespoke and innovative advice, supporting your future visions whatever your business.

See how we can help your business at www.hsbcnet.com/capitalfinancing

Issued by HSBC Holdings plc. AC30446. *For full information on awards won visit http://www.hsbcnet.com/gbm/about-us/awards

THE TXF CHRONICLE

Contents

2 **TAG's top 5 dealmakers**
TXF garners market insight from five of the most prolific dealmakers on tagmydeals.

8 **All hail… the TXF Best in Class**
Oliver Gordon provides post-match analysis on *TXF*'s Best in Class Awards.

14 **Export finance H1 2015**
TXF Data provides a snapshot of the export-finance market in the First Half.

16 **From bull to bear**
Oliver Gordon analyses the results of *TXF* Data's First Half 2015 Export Finance Report.

24 **The saga of US Ex-Im**
Valerie Colville discusses the plight the US' beleaguered export credit agency.

30 **The CLR/TXF 2015 Exporter Review**
TXF and Clevis Research analyse the views and experiences of 50 corporate exporters.

33 **Why the ECAs should carry on competing with the private-insurance market**
Charles Berry argues that the ECAs need to start adhering to private-market practices.

44 **A sea change in short-term trade**
Hesham Zakai examines the evolving make-up of short-term trade finance.

48 **Leveraging the power of fintech**
BNY Mellon's Dominic Broom discusses fintech's potential to transform trade and payments.

51 **Platform power**
Hesham Zakai analyses the divergent offerings of different supply chain finance platforms.

56 **Breaking down the barriers of global trade**
Oliver Gordon explores developments in proposed mega-regional trade agreements.

62 **Time to aim for the next level**
Alexander Malaket analyses the current state of the trade and supply chain finance market.

69 **SaaS casts shadow over licensed software**
Helen Castel talks to CGI's Kitt Carswell about why trade-finance banks are increasingly opting for SaaS over licensed software.

73 **The burning issues facing the trade sector**
Jonathan Bell talks to Misys' David Hennah about the hot topics in the short-term trade space.

76 **Working capital: a strategic opportunity**
David Viney discusses how companies can manage their working capital in a more flexible manner.

80 **Commodity finance 2014**
TXF Data provides a snapshot of the commodity-finance market in 2014.

82 **OECD transparency regulation to prove taxing for big traders**
Ollie Gordon examines a new OECD scheme designed to make multinational companies more transparent.

86 **Cocobod's success stands as an example for other African nations**
Jonathan Bell reviews the annual Cocobod PXF and its effect on the African soft commodities market.

91 **Mercuria v Citigroup**
Robert Parson and Jonathan Solomon analyse the implications of the Mercuria vs Citi court ruling for the commodities market.

96 **Basel III: where do we stand?**
Oliver Gordon discusses whether trade finance is still unfairly penalised under Basel III.

Jonathan Bell
Editor-in-chief
jonathan.bell@txfmedia.com

Oliver Gordon
News and Features Editor
oliver.gordon@txfmedia.com

Hesham Zakai
Content manager
hesham.zakai@txfmedia.com

Dan Sheriff
Managing director
dan.sheriff@txfmedia.com

Dominik Kloiber
Commercial director
dominik.kloiber@txfmedia.com

Max Carter
Product development director
max.carter@txfmedia.com

James Petras
Chief technology officer
james.petras@txfmedia.com

Alfonso Olivas
Head of data and analytics
alfonso.olivas@txfmedia.com

Katy Rose
Head of marketing
katy.rose@txfmedia.com

Mailing address:
TXF
Canterbury Court
Kennington Park
1-3 Brixton Road
London
SW9 6DE.
Tel: +44 (0) 20 3735 5180

Registered office:
TXF Limited
7-10 Chandos Street
London
W1G 9DQ.

Registered in England & Wales.
Registered No: 08421624

© TXF Limited 2015

Copying without permission of the publisher is prohibited.

TAG's top 5 dealmakers

TXF recently caught up with the five most prolific dealmakers on tagmydeals to find out a little bit about them, their favourite deals from the first half of 2015, and their outlooks for the next six months. These top taggers cover a broad spectrum of trade financing industries – including export finance, structured commodity finance and project finance – and provide crucial, on-the-ground insight into what the market looks like from the perspective of those actively putting the deals together.

KATHRIN MARCHANT (KM), PARTNER, BAKER & MCKENZIE

Trade & Export Finance (TXF): ***What was your favourite deal in the first half and why?***
KM: My favourite deal in the first half of 2015 was the €13 million ($14.5 million) Euler Hermes-backed financing to Jindal Poly Films in India. I enjoyed working on this deal since, despite some commercial discrepancies that had to be resolved during the negotiations, all parties acted very efficiently and took a practical approach to ensure a smooth and timely signing of the documentation within just eight weeks from the appointment of Baker & McKenzie as legal advisers to the lender. This deal is also a good example of the use of a short-form standardised ECA financing documentation for a borrower in an upcoming market.

TXF: ***What are your specialist areas of expertise?***
KM: I provide German and English law advice to international lenders and borrowers in the fields of export and trade finance, project finance, acquisition finance, and general banking and syndicated lending.

TXF: ***What is the biggest opportunity you see in the next six months?***
KM: The use of short-form standardised

Kathrin Marchant, partner, Baker & McKenzie

documentation for ECA financings may be the key to opening new markets. In particular, small- and mid-sized borrowers are looking for short-form, easy-to-understand documentation and seem to be willing to pay slightly higher margins than the big global players. However, such short-form standardised documentation is usually not suitable for borrowers which already have more complex financings, such as PXF facilities, in place when they enter into an ECA-backed financing.

TXF: ***What is the biggest challenge?***
KM: From a legal advisor's perspective, the biggest challenge will be to master the 'stretch' between producing short-form

standardised ECA financing documentation to meet the demands of the market and ensuring at the same time that all regulatory and ECA cover requirements are satisfied by such documentation.

DANNY LOOIJMANS (DL), VICE-PRESIDENT, STRUCTURED EXPORT FINANCE, ING BANK

Danny Looijmans, vice-president, structured export finance, ING Bank

TXF: ***What was your favourite deal in the first half and why?***
DL: My favourite deal in the first half was our financing of an Airbus A330-300 aircraft to Korean Air Lines, a longstanding relationship client of ING. It was the airline's fifth euro-denominated debt financing, all of which were arranged by ING to match its euro liabilities with increasing euro-denominated revenue from its European routes.

I liked this transaction as it was another close collaboration with our colleagues in New York, who had originated the transaction – which was funded out of ING Germany. Since it was also the fifth Coface-guaranteed financing in a row to Korean Air Lines it was a rather smooth process – helped by the fact we were working with the same external counsels from the previous transactions.

Totalling in excess of €1 billion ($1.1 billion), the deal represented the seventh ECA-supported aircraft transaction originated by our export-finance team in New York and funded by ING Germany.

TXF: ***What are your specialist areas of expertise?***
DL: My experience in aircraft financing, having worked in ING's transportation-finance team for five years, together with the track record and expertise of our New York colleagues in arranging US Ex-Im- and European ECA-supported aircraft transactions appears a fruitful combination.

TXF: ***What is the biggest opportunity you see in the next six months?***
DL: The strong deal-generating capabilities of ING across the globe, combined with the expertise and appetite for export-finance transactions within ING Commercial Banking Germany, will certainly enhance our clients' service while fulfilling also our growth ambition.

TXF: ***What is the biggest challenge?***
DL: The pending reauthorisation of US Ex-Im will likely have an impact on the volume of ECA-backed aircraft financings, and hence our direct business opportunities. The expiration US Ex-Im's charter has stalled a large number of deals in their pipeline.

The pending reauthorisation of US Ex-Im will likely have an impact on the volume of ECA-backed aircraft financings, and hence our direct business opportunities. The expiration US Ex-Im's charter has stalled a large number of deals in their pipeline.

STEFFEN PHILIPP (SP), ASSOCIATE DIRECTOR, DZ BANK

Steffen Philipp, associate director, DZ Bank

TXF: ***What was your favourite deal in the first half and why?***
SP: My favourite deal in the first half of 2015 was undoubtedly our Finnvera-covered financing of two new cruise liners for TUI Cruises. As part of a banking consortium, DZ Bank supported the expansion of the German cruise operator TUI Cruises with a comprehensive, high-volume financing package. The two new state-of-the-art cruise ships are being built by Meyer Turku shipyard and will reinforce TUI Cruises' position in the European cruise market. As the two new ships will be replacing older ships, this will contribute to the modernization of the fleet and also set new standards in regards to environmental performance.

TXF: ***What are your specialist areas of expertise?***
SP: I am a senior product specialist and part of DZ Bank's export-finance team in Frankfurt. My main area of expertise is in ECA-covered financing with an increasing focus on project-finance structures and ship financing. Even though I'm responsible for South-East Asia and India, being a member of DZ Bank's export finance department does not mean being restricted to a specific geographical target market or ECA, which provides me with a strong degree of variety.

TXF: ***What is the biggest opportunity you see in the next six months? And what's the biggest challenge?***
SP: In terms of banking regulation, Basel III is becoming more and more apparent and its equity-capital requirements are increasingly built into the banks pricing models. Given the current high liquidity in the market, it will be a very big challenge for banks to pass on this additional capital cost component to its borrowers.

In the aircraft financing sector, I foresee soaring competition from various investors and banks, traditional and new, which will lower the margins to such levels that it will be a big challenge for banks to turn a profit. And ECA-covered deals that are funded by banks will be increasingly crowded out by commercial lending or bond structures.

From a geopolitical point of view, a big challenge will certainly be developments in China and India. It will be interesting to see how international trade will be affected by the anticipated slower economic growth of China and whether India might be able to fill the gap. In India the main challenge will be whether Prime Minister Modi can deliver on his promises to create a better environment for growth and investments. An improving investment sentiment in India would provide for an increasing amount of deal opportunities from clients seeking financing for their capital-expenditure projects.

From a geopolitical point of view, a big challenge will certainly be developments in China and India. It will be interesting to see how international trade will be affected by the anticipated slower economic growth of China and whether India might be able to fill the gap.

Bart Ponsioen, director, structured export finance, ING Bank

BART PONSIOEN (BP), DIRECTOR, STRUCTURED EXPORT FINANCE, ING BANK

TXF: ***What was your favourite deal in the first half and why?***
BP: My personal favourite deal of the first half was the multi-ECA covered financing package (totaling €395 million) that ING provided, as part of a bank club, to Limak for its Hamitabat CCGT power plant in Turkey.

The financing is being used to modernise the power plant, making it up to 30% more efficient and environmentally-friendly by using the newest Siemens (Germany) and CMI (Belgium) technology. In addition, I really liked that all parties in this deal worked so closely on the common goal to get the deal finalised within the target date. I think it stands as a good candidate for a Perfect10 deal of the year for 2015.

TXF: ***What are your specialist areas of expertise?***
BP: I head the structured export finance team within Frankfurt that focusses on financing clients in Turkey and Asia. Together with our colleagues on the ground in these countries, we provide tailor-made financings and loan documentation to fit these clients' needs. The expectations of our clients in the process, from first indicative term sheet to the signing and disbursing of the loan, are different in each country. I think the key to success is understanding those local expectations. Empowering our clients to implement their strategic investments is the primary goal we set in our team.

TXF: ***What is the biggest opportunity you see in the next six months?***
BP: It looks like some big project financings are coming up with ECA/export-finance involvement. Obviously these may get delayed a bit, but they will definitely provide the liquid banking market with some interesting opportunities to put its funds to work, along with more tags for tagmydeals.

TXF: ***What is the biggest challenge?***
BP: I continue to see a challenge in the ongoing geopolitical concerns (such as Syria and Yemen), as these can negatively impact global economic development and, with that, export finance. Additionally, the ongoing debate about US Ex-Im may become a more serious challenge if not resolved soon, particularly on the ECA-backed aircraft financing volumes.

I continue to see a challenge in the ongoing geopolitical concerns (such as Syria and Yemen), as these can negatively impact global economic development and, with that, export finance.

KEVIN GUILLOU (KG), ASSOCIATE, STRUCTURED EXPORT FINANCE, EUROPE, RUSSIA & CIS, SOCIÉTÉ GÉNÉRALE CIB

Kevin Guillou, associate, structured export finance, Europe, Russia & CIS, Société Générale CIB

TXF: ***What was your favourite deal in the first half and why?***
KG: I would say that my favorite deal was the €460 million ($513 million) EGAP buyer credit that we closed with Azerbaijan Railways in April 2015, in which we acted as an MLA. The deal financed the modernisation of a line that runs from the capital Baku to the Georgian border. This is a comprehensive upgrade of infrastructure: in addition to the construction of the tracks themselves, the deal encompasses the modernisation of the locomotives and wagons. This railway, which is expected to be completed in late 2015, connects with those of Georgia and Turkey to make a 600 kilometre 'bridge' between Asia and Europe. The line is expected to carry 17 million tons of cargo annually by 2030.

One of the factors that make this deal exceptional was the time-pressure under which it was closed. The Azerbaijani Ministry of Finance, the guarantor of the deal, requested that the banks involved be ready to sign between Christmas and New Year's Eve, which kept everybody on their toes until the very end of the year. We met the deadline but signing was postponed to April due to the renegotiation of the underlying export contract. This fifth deal in less than six months reinforces our presence in Azerbaijan. During this period, we have also financed a new fleet of buses for the Baku municipality (with Coface, Euler Hermes, and EGAP cover), and a new motorway.

TXF: ***What are your specialist areas of expertise?***
KG: I have been focused on export/infrastructure financing solutions in Eastern and Central Europe, Russia and the CIS for almost five years now, so I have acquired a strong understanding of this vast region. Given that most of these countries are commodity-driven, I have also worked on a lot of oil and gas, and mining deals.

Over the past 18 months, I have worked on three advisory mandates for complex projects, which required an in-depth knowledge of ECA financing mechanisms in order to, for example, maximise an ECA's coverage or establish an unconventional financing structure.

TXF: ***What is the biggest opportunity you see in the next six months?***
KG: Although the fall in commodity prices will delay or rule out some investment projects, with regard to the more crucial ones, debt financing and especially ECA financing should become more popular among major commodity producers, since other sources of funding might dry up a little. Moreover, commodity-driven economies like the CIS regions, for instance, might further intensify their efforts to diversify their economies by launching infrastructure projects or investing in more added-value industries, for which ECA financing is a natural source of funding.

TXF: ***What is the biggest challenge?***
KG: Major international banks like Société Générale CIB are currently focusing on delivering profitability to investors and improving their Basel III ratios. I believe that such a trend will increase the competition in the market for ECA financing, and for the best assets in general. ■

DELIVERING SMART FUNDING SOLUTIONS

TO FOSTER EXPORT ACTIVITIES

WITH YOU, AS ONE TEAM

«Best Global Export Finance Bank»

SGCIB.COM

BUILDING TEAM SPIRIT **TOGETHER**

THIS COMMUNICATION IS FOR PROFESSIONAL CLIENTS ONLY AND IS NOT DIRECTED AT RETAIL CLIENTS.

Societe Generale is a French credit institution (bank) and an investment services provider (entitled to perform any banking activity and/or to provide any investment service under MiFID except the operation of Multilateral Trading Facilities) authorised and regulated by the French Autorité de Contrôle Prudentiel et de Résolution ("ACPR") (the French Prudential and Resolution Control Authority) and the Autorité des Marchés Financiers («AMF»). This document is issued in the U.K. by the London Branch of Societe Generale, authorized in the U.K. by the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request. 2015 Societe Generale Group and its affiliates. © David Despau – FRED & FARID

All hail… the TXF Best in Class

Oliver Gordon provides post-match analysis on TXF's Best in Class Awards at its Paris and Amsterdam conferences earlier this year.

JUNE is a month that is always jam-packed with highly-publicised sporting accomplishments. With leagues and tournaments of every variety coming to a climatic end in the month, news feeds from Hong Kong to New York are always inundated with extravagant – if only occasionally merited – eulogies on the triumphs of a fleetingly-victorious team or sportsman.

This June saw Barcelona bag a treble-winning season in their comprehensive victory over Juventus in the European Champions League football final, Stanislav Wawrinka overcome the odds to beat the seemingly-indomitable Novak Djokovic to the French Open tennis title, and French rugby club Toulon etch their names in the rugby record books by securing their third-successive Heineken Cup victory. Awards were dished out. Cups kissed. Celebrations had. Managers and coaches fired.

To combat the banality of the whole charade, TXF set out to reward the season's real winners: the institutions and dealmakers in the commodity, export and project finance spheres that grafted through blood, sweat and tears throughout 2014 with one eye on the illusory promise of a small rectangular object that they knew would induce wide-eyed awe and admiration from great, great grandkids to come… A TXF Best in Class award.

To do justice to that grind and sacrifice, TXF put on a couple show-stopping awards ceremonies – in Amsterdam's decadent art-deco American Hotel in late May, and the lavish Palais Brongniart in Paris in early June – that will truly live in the memory. At least until next year. So, without further ado, here are your champions…

EXPORT & AGENCY FINANCE 'BEST IN CLASS' AWARDS

Leading the charge for Narendra Modi's new business-focused India, local conglomerate

Tag's debut Top Dealmaker award for Export & Agency Finance went to Bart Ponsioen, a director in ING's export finance division. Ponsioen was involved in a colossal $10 billion worth of deals last year.

Leading the charge for Narendra Modi's new business-focused India, local conglomerate Reliance Industries brought home the coveted Best Export Finance Borrower award.

Reliance Industries brought home the coveted Best Export Finance Borrower award. Linde then proved that the Germans are still the ones to beat when it comes to exporting, with the international industrial gases and engineering outfit named Best Exporter. Euler Hermes made it a German double as it fought off stiff competition to be crowned Best Export Credit Agency. Usually an under-appreciated but very much integral part of any transaction, the lawyers finally got their dues as Allen & Overy was lauded as the Best Export Finance Law Firm.

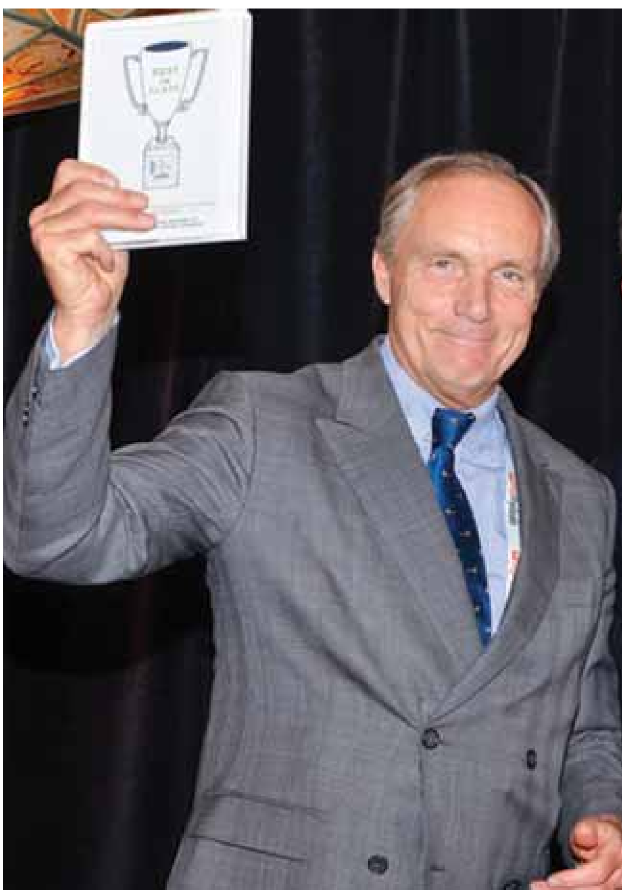
Afreximbank was rewarded for the ever-rising levels of financial support it is providing towards African development by taking home the top accolade in the Best DFI/MFI segment. Japan's Sumitomo Mitsui Banking Corporation was hailed as 2014's Best Project Finance Bank for its involvement in over 30 project finance deals throughout the year. And, confirming the French knack for export financing, with 29 deals in 2014, Société Générale stormed through to take the cherished Best Export Finance Bank award.

Congratulations to our 2014 Export Finance winners:

Best Export Finance Bank	Société Générale
Best Project Finance Bank	SMBC
Best Export Finance Law Firm	Allen & Overy
Best Export Finance Borrower	Reliance Industries
Best ECA	Euler Hermes
Best DFI/MFI	Afreximbank
Best Exporter	Linde

COMMODITY FINANCE 'BEST IN CLASS' AWARDS

In the Commodities Finance awards, Clifford Chance got one back on its magic-



Swiss-based trading house Gunvor fought off strong competition from rival traders and industrious producers to take home to the moniker of Best Commodities Finance Borrower.

circle foe Allen & Overy by being named Best Commodities Finance Law Firm. Swiss-based trading house Gunvor fought off strong competition from rival traders and industrious producers to take home to the moniker of Best Commodities Finance Borrower.

Unsurprisingly, with all the great work the bank has continually done in the agri sector each year, Rabobank was celebrated as 2014's Best Soft Commodities Finance Bank. Dutch compatriot ING Bank is always there or thereabouts when considering the top commodities financing institutions, and this year was no different as the Amsterdam-based titan grabbed the award for the Best Energy Finance Bank. Best Metals and Mining Bank went to Deutsche Bank. And John Mac and his team were up celebrating again as the German Bank made it a double when it was also honoured as the Best Overall Commodities Finance Bank.

Congratulations to our 2014 Commodity Finance winners:

Best Overall Commodities Finance Bank	Deutsche Bank
Best Energy Finance Bank	ING
Best Metals & Mining Bank	Deutsche Bank
Best Soft Commodities Finance Bank	Rabobank
Best Commodity Finance Borrower	Gunvor
Best Commodities Finance Law Firm	Clifford Chance

TOP DEALMAKERS

At TXF, we firmly believe that there's absolutely no i in team. But there is me… So, accordingly, we thought it best to pit co-workers against each other using tagmydeals transaction information to find out who really is doing the hard graft for their institutions.

Tag's debut Top Dealmaker award for export & agency finance went to Bart

We know when to go against the grain

or to go with it

www.rabobank.com/tcf

Achieving more together

Ponsioen, a director in ING's export finance division. Ponsioen was involved in a colossal $10 billion worth of deals last year, including Empresa de Transporte de Pasajeros Metro's innovative $800 million hybrid infra financing in December. For commodities finance, Tasneem Vally, a director at Deutsche Bank, came out victorious. Vally was involved in over $6 billion of transactions last year.

Well that's it for this year – it's been emotional… And for those that left disappointed – as any good Liverpool FC fan will tell you at this point – there's always next year. ■

Voting for the Best in Class is restricted to users of tagmydeals (verified industry peers only), making them the most exclusive and representative awards in the market.

EXPORT & AGENCY FINANCE

EXPORT FINANCE H1 2015

Total amount
$42.13bn

No of deals
177

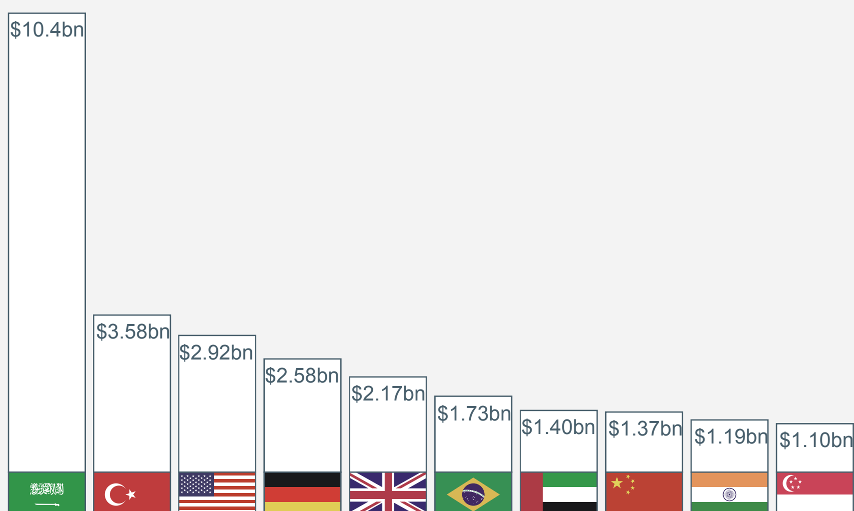
ECA/DFI coverage
76.1%

Top sector
Transport

Top region
Middle East

Data answers to big questions:

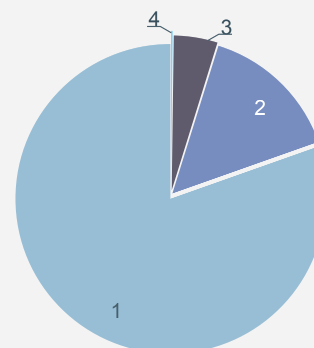
Where are the deals happening?



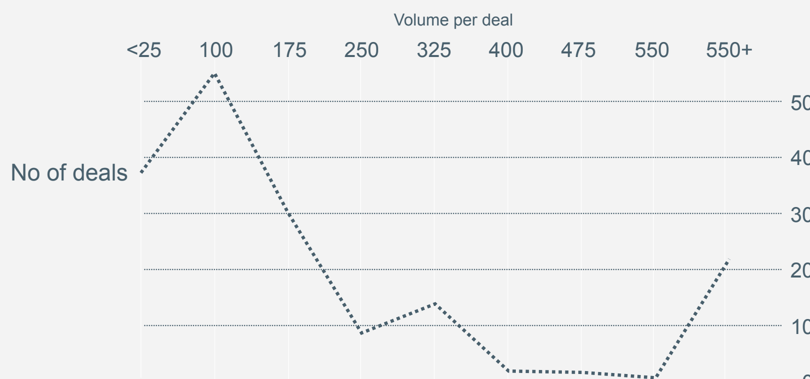
Where are the funds coming from?

Sources of funding by institution type			
		USDm	%
1	Financial institution	26,420.2	80.4%
2	ECA*	4,821.7	14.8%
3	DFI/MFI*	1,506.3	4.6%
4	Investment manager	279.7	0.2%

*Direct loans



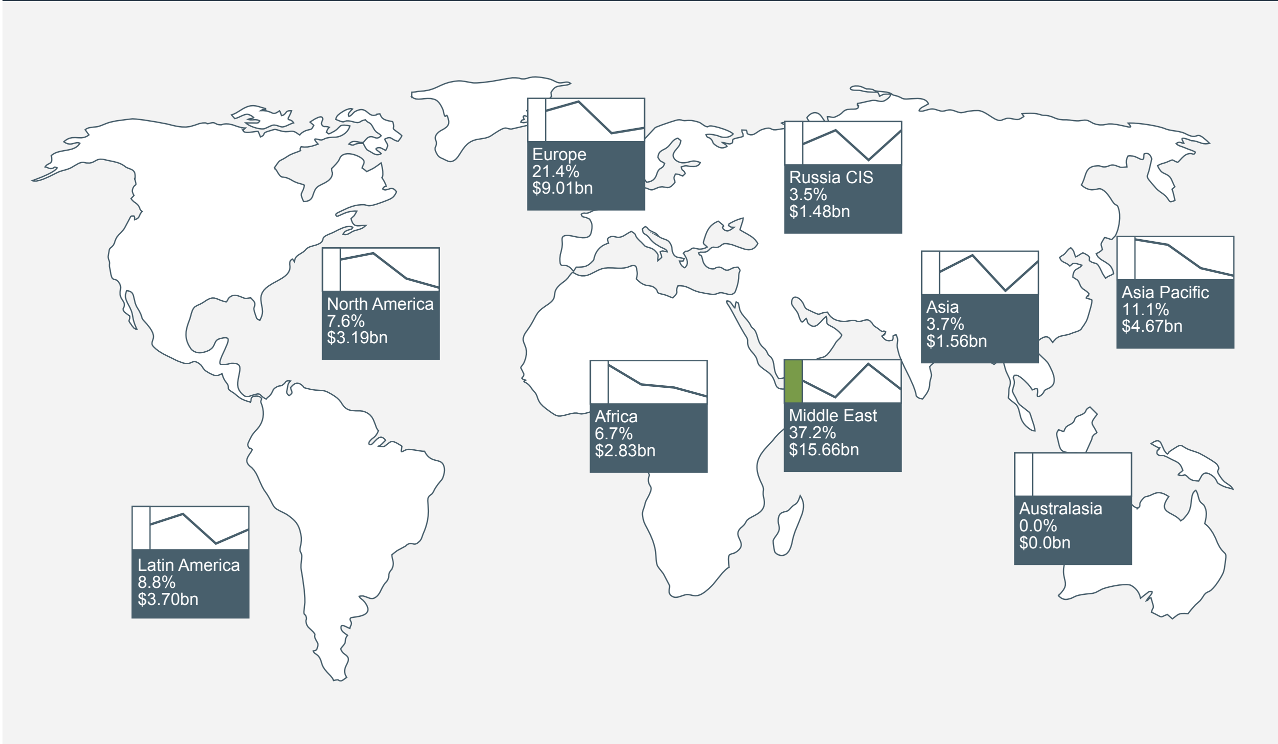
Are medium-sized deals struggling?



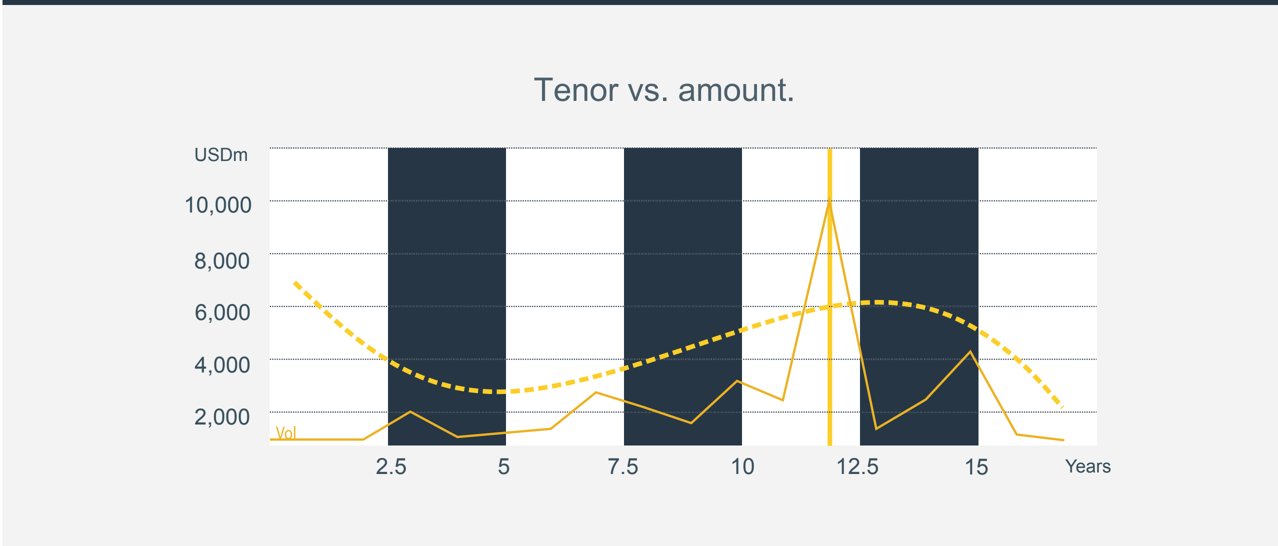
*NB: The data presented in this report is derived from tagmydeals.com, which is our user generated deals database. We rely on institutions submitting deals to us and hence do not cover the whole market. If you are interested in the volumes of individual export credit agencies (ECAs) please also check the company reports and website of the specific ECA you want information on.

For more information about **tagmydeals**, or to access the **TXF data tool**, you can:
• Call: +44 (0) 203 735 5180 • Email: alfonso.olivas@txfmedia.com • Visit: www.tagmydeals.com

How did the different regions perform?



What is the most popular tenor?



powered by tagmydeals
TXF DATA

For more information about **tagmydeals**, or to access the **TXF data tool**, you can:
• Call: +44 (0) 203 735 5180 • Email: alfonso.olivas@txfmedia.com • Visit: www.tagmydeals.com

From bull to bear: an analysis of TXF Data's H1 Export Finance Report

Oliver Gordon analyses the results of TXF Data's first half 2015 Export Finance Report*.

Export finance market declines on project and aviation finance slump

Export finance volumes in the first half of 2015 have tumbled by 28% year-on-year, and by 35% compared to the second half of last year, TXF's *H1 Export Finance Report* has revealed. The reduction in large project and aviation finance deals has been cited as a reason for the market drop-off.

In the first half of the year, export volumes by dollar value totalled at $42.58 billion; a dramatic decline on the $59.26 billion recorded in the first half of 2014, and the $65.95 billion recorded in the second half of last year. The quantity of deals concluded fell to 177 in the first half of 2015; compared to 198 deals in the first half of last year, and 197 in the second.

PROJECT FINANCE FADES

Export finance volumes rely heavily of export and agency support of large project financings – which traditionally make up approximately half of the export finance market. However, a decline in large project financings in the first half has the left export finance figures lagging. Indeed, in the first half project finance fell 22% year-on-year to $20.43 billion. One export finance head at a UK bank tells *TXF*: "There's not the same volume and size of project finance deals with export finance attached happening. The project finance world isn't quite at the same level as it has been previously."

Another senior export financier from a Japanese bank agrees with the sentiment: "The last few years have been characterised by a number of mega projects and I think those are decreasing, which is having a disproportionate effect on the numbers, particularly in the oil and gas space."

And the lack of the big project deals has been conspicuously evident in the Asia-Pacific, adds an Australian banker. "In Asia, particularly the large project financings have been absent in the first half, which really has been a big swing factor for the whole market," he says.

COMMODITY PRICES TAKE THEIR TOLL

One reason for the drop-off in projects has been the decline in commodity – particularly crude oil and iron ore – prices, which in turn has had its knock-on effect on the project and export finance market. Says an export financier at a US bank: "One of the main things driving the overall fall in export finance is commodity prices. If you look at last year, most of the stuff was energy, mining, and oil and gas. Obviously we've seen commodity prices, particularly oil, slide dramatically over this last year. As a result, a lot of projects have been postponed. The ones which are ongoing are the large investments which would have started in the good times and now need to be finished off."

AVIATION DEALS ON THE DESCENT

Aside from project finance, a large segment of the export finance market is made up of ECA-supported aviation finance transactions.

However, borrowers have recently been turning to different sources of finance to fund their aircraft purchases and leases, resulting in a drastic 40% fall in ECA-supported aviation deals – the market totalling $3.45 billion in the first half. The US banking source says: "On the aviation side, you have a lot more cash available to do deals without ECAs. So the ECA-aviation market in Europe has reduced dramatically – and that will make a big difference to the market level because transport is always the big industry sector for ECAs."

Even outside of aviation, borrowers are increasingly turning their backs on ECAs because of a general surplus of liquidity. Says the source: "More generally, the global economy is starting to pick up and therefore ECA finance is becoming slightly less needed. I think that's certainly part of the reason for the drop."

EXPORT FINANCE: A LUMPY BUSINESS

But before we all get carried away with the notion that export finance is receding towards its place as banking's D-list celebrity after its years of fame following the financial crisis, it is important to remember that the market tends to be dominated by a few mega transactions. And it is therefore difficult to draw conclusions from a half-year's results. Says the US banking source: "ECA finance goes up and down because it's lumpy. So seeing it drop 28% year-on-year isn't all that shocking, as a few big transactions in the second half will put us back to where we were."

Indeed, an export finance source from a Dutch bank tells *TXF* that his own institution was particularly active last year, and he is expecting the same in the second half of this one. And, as such, a half-year comparison might not reflect the reality of the market. "From our perspective, we did see a strong request from clients in the second half of last year to close various larger financings just before year-end. Obviously the deals closed in the second half of 2014 kept the banks busy still into the first half of this year. And in the first half of 2015, there were some large cruise ships and projects closed.

"I also hear there are some new projects coming to the market in the second half. So I would be careful when comparing half-years as single larger financings may distort such comparisons more easily than looking at annual or multiple-year periods."

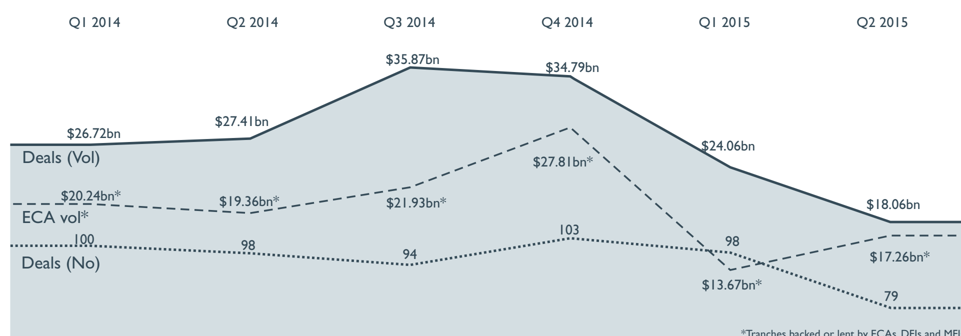
Interestingly, German ECA Euler Hermes recently published its half-year overview, which noted a 41% increase in medium/long-term applications and said that due to individual projects: "any fluctuations cannot be construed as evidence of a general change in the flow of exports and a series of further major projects is currently being processed". So export finance's steady decline into senility is certainly not a foregone conclusion.

EUROPEANS PROSPER, AS AMERICANS AND JAPANESE RETREAT

One trend that is undeniable, however, is that European banks have propelled themselves to the head of the export finance market at the expense of their US and Japanese competitors. In regards to the origin of funds in the first half, France (17.6%), Germany (17.1%) and the UK (14.3%) came in first, second and third, respectively. Japan came in fourth with 12% of the market, and the US was sixth with 7.8%.

The market share for Japanese and US banks slumped 27% and 63%, respectively, year-on-year. The reason for their demise can

ECA market volume



be found in the decline in project financings and the ubiquitous availability of the euro. According to the US banking source: "The Japanese banks are big on ECA-supported project finance, so if project finance isn't having as many big deals then you're going to see a fall from the Japanese banks as well as the ECAs – because they tend to come as a package.

"Also, the euro is just very cheap right now, so people are trying to find a home for it. People are much more willing to do deals in euros over dollars at the moment. And obviously that plays into the hands of the European banks. The Japanese and US banks are longer in dollars, so the fact the European Central Bank has flooded the market with euros has helped European banks trump their US and Japanese rivals."

The US banks have also suffered from the lack of ECA-backed aviation deals, in which banks like JP Morgan are traditionally dominant players. But another part of the reason is pricing, says the UK banking source. "A number of US and Japanese banks have come to the conclusion that the pricing of export finance deals aren't that economic anymore. I suppose it's the cycle: a number of years ago there weren't enough banks in the game because of the balance sheet constraints, now everyone has the balance sheet but the returns are just not there."

HSBC DOMINATES

On an individual-bank level, HSBC took top spot of the lending league table, streets ahead of its closest rival with 15.5% of the market. Coming in second was Santander with 9.4%, which recorded a remarkable 174% increase in volumes year-on-year. And in third, the ever-present Société Générale with 7.1%.

"HSBC has a very large export finance team that capture a lot of deals, some of which are bound to be very big ones," says the US banking source. "They do deals in all currencies, they're strong in the Middle East, they're strong in project finance, and in transport in general. So I suppose it's not all that surprising." ■

Transport trumps energy for export finance

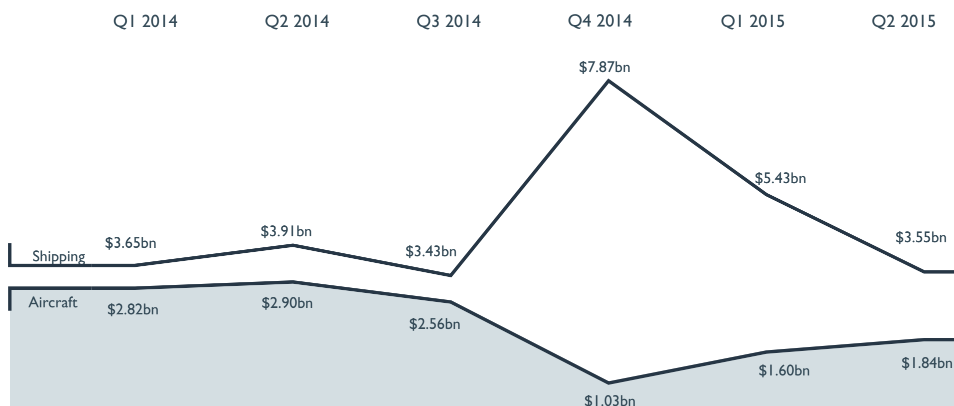
Transport has wrestled energy off its throne as the leading sector for export finance in the first half of 2015 – TXF's *H1 Export Finance Report* revealed this week.

Transport accounted for 28.3% of market share, and also registered the biggest number of deals. The sector's 50 transactions, totalling $11.91 billion, included the landmark UKEF-backed sukuk for Emirates Airlines – the largest-ever capital markets offering in the aviation space with an ECA guarantee.

Says one UK-based export finance banker: "Transport's always been a big sector for export finance. If you take the volumes of aviation, it completely dwarfs most other sectors. But transport also includes shipping, and roads and rail – so that's got to be at least 20% of the export finance market right there."

Coming in second was the chemicals/petrochemicals sector, which stood at $9.06

Aircraft vs shipping



Sector breakdown

		H1 2015	H1 2014
1	Transport	11,914.8	12,944.1
2	Chemicals/Petrochemicals	9,060.0	9,018.1
3	Energy	8,297.6	15,828.2
4	Telecoms	3,079.4	3,691.6
5	Infrastructure	3,063.2	5,976.2
6	Metals and mining	2,461.7	8,577.9
7	Manufacturing	1,428.3	1,650.5
8	Capital equipment	591.7	906.8
9	Agri/soft commodities	33.0	59.1
10	Other	2,203.3	611.8

billion in the half and represented 21.5% of the market. Despite growing by 0.5% year-on-year, the sector only recorded one deal over the period – the vast Petro Rabigh project financing in Saudi Arabia.

Energy took bronze, totalling $8.3 billion for the half-year, and accounting for 19.7% of the market. However, export finance volumes in the sector plummeted 46% year-on-year, as the oil-price slump took its toll.

Similarly, the general commodity-price decline resulted in sharp falls in export finance for agri/soft commodities (-44%), and metals and mining (-71.3%). Perhaps less predictable, however, was the 41% slump in infrastructure. "We might have expected infrastructure to have performed much better," says a source from a Japanese bank.

SHIPPING KEEPS TRANSPORT AFLOAT

Despite topping the table as export finance's key sector, transport experienced an 8% drop in volumes year-on-year. Much of the decline came from a poor performing aviation sector. Says the UK banking source: "Last year, we saw a big increase in aviation deals. And this year we're not seeing the same volume, and that's a large part of the market."

In a highly liquid banking market, borrowers are turning to alternative forms of finance to fund the aircraft. Says one US banking source: "On the aviation side, you have a lot more cash available to do deals without ECAs. That's why ECA-aviation market in Europe has reduced so dramatically."

Another element has been the lack of US Ex-Im support available to the aviation market, speculates an export financier from a Dutch bank. "The US Ex-Im shutdown debate may also have had some impact already on the aviation figures, and will do so going forward if the shutdown continues," says the source.

The saving grace for transport, however, has been shipping finance. The market had a record year in 2014, and that momentum has continued into this year – having already recorded close to $9 billion in export finance in the first half. But that progress might tail off in the second half, says the US banking source. "The industry was completely disabled by the financial crisis, and now the market is catching up as vessels are upgraded. You may find that might fade in the near future as some of that momentum is probably oil-related, such as FPSOs, and the wilting commodity prices may trickle through at some point." ■

Sovereign financings see Middle East reign in export finance

The Middle East was the top destination for export finance in the first half of the year, surging 18% year-on-year – TXF's *H1 Export Finance Report* has revealed.

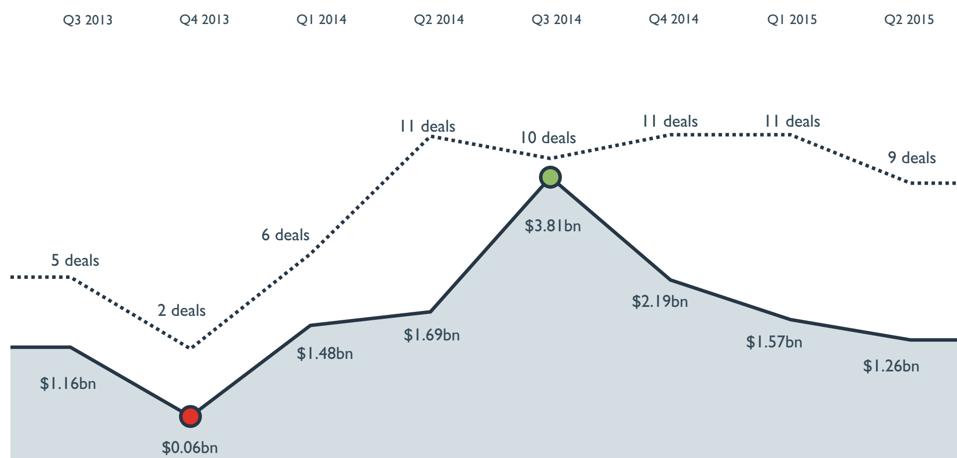
The region recorded export finance volumes of $15.66 billion in the half, a vast 79% increase on the volumes recorded in the second half of last year.

The Middle East's impressive figures saw it capture 37% of the total export finance market, ahead of Europe with 21% and Asia-Pacific with 11%. One caveat, however, is that $9 billion of the Middle East's volumes came from the sole Petro Rabigh project financing in Saudi Arabia.

SOVEREIGNS REIGN SUPREME

The Middle East's prosperous figures in the half were driven by a number of large sovereign financings for infrastructure projects. An export finance head of a UK-based bank tells *TXF*: "You're seeing a lot of sovereign financings – government subsidiaries are still borrowing money and putting it into the big infra plays there. The UAE is still driven by sovereign rather than project finance. Then there's newer markets coming up as well: Oman is offering a lot at the moment, as is Kuwait and Lebanon, and indeed Saudi is still very active. Certainly Egypt is going to be a big market over the next 12 months."

Africa



But some believe the region has hit its peak, with export finance volumes likely to wain in the second half as a result of the oil-price decline. An export finance source from a US bank says: "The Middle East is probably going to see a reduction in investment on the commodities-related stuff. If you're looking at financing sovereigns, they're all finding themselves a little bit short in terms of oil revenues. That will trickle through pretty soon."

BAD NEWS FOR BIG MARKETS

Aside from the growth of the Middle East, the only other region to show positive figures was Latin America – which saw a small 6.5% rise in volumes year-on-year. But that's where the good news ends.

The biggest dents to the overall market came from heavy declines in three core regions: Europe, Asia-Pacific and Russia/CIS. Europe, the biggest export finance market in the first half of last year, fell 31% year-on-year to $9.02 billion.

Asia-Pacific export finance volumes dropped 23% year-on-year to $4.86 billion, as the big ECA-supported project financings seen last year dried up in 2015. An export financier at an Australian bank says: "In Asia-Pacific particularly, the large project financings have been absent in the first half – which really has been a big swing factor."

The heaviest blow came for the Russia/CIS region, with volumes plummeting 71% year-on-year to $1.48 billion as the effects of EU/US sanctions started to really hit home. "The fact that Russia hasn't come back is relevant because even last year, when it was off the scale, there were still deals being done. From what I gather, there is still a lot of activity in Russia but not a lot of deals being done yet. Most people are still slightly cautious around the sanctioned counterparties."

Despite the anchor posed by Russia on the region's export finance numbers, some of the country's neighbours are showing slightly more auspicious outlooks. Says the source: "There has certainly been a pick-up in Central Asian markets, such as Turkmenistan, Azerbaijan and Uzbekistan."

Regions market status H1 2015

		USDm	%
1	Middle East	15,660.0	37.2
2	Europe	9,001.0	21.4
3	Asia Pacific	4,670.0	11.1
4	Latin America	3,700.0	8.8
5	North America	3,160.0	7.6
6	Africa	2,830.0	6.7
7	Asia	1,560.0	3.7
8	Russia CIS	1,480.0	3.5
9	Australasia	0.0	0.0

Regions market status H1 2014

		USDm	%
1	Middle East	13,279.0	22.4
2	Europe	12,978.0	21.9
3	Australasia	9,604.0	16.2
4	Asia Pacific	6,333.0	10.7
5	Russia CIS	5,181.0	8.7
6	Latin America	3,593.0	6.1
7	North America	3,500.0	5.9
8	Africa	3,177.0	5.4
9	Asia	1,614.0	2.7

AFRICA: MAYBE NEXT YEAR

Another source for disappointment came from the poor performance of Africa. Despite 2015 being labelled 'Africa's Year' by many (like each of the last three years), the region failed to set the world alight in the first half. In fact, Africa's export finance volumes fell 6% to $2.93 billion. An export financier from a South African bank says: "It's a remarkably low number given Africa's size and the fact that it needs to spend around $90 billion a year on infrastructure just to keep the lights on."

The source speculates that banks are still scared of the reputational issues related to financing in Africa, particularly with the relatively-new Know Your Customer (KYC) rules in place. "KYC could be the issue here. Even if you're doing a US Ex-Im-funded deal where you're arranging and not funding, unless it's GE and a trusted sovereign, you won't be allowed to do it. That's really driving banks' strategies. So who's going to do export finance deals in Africa going forward?"

Unless the continent has an absolutely storming second half, as of 1 January, listen out for those familiar voices bleating at every conference: "This will be Africa's year." All the while, Africans patiently sit and wait. ■

SACE tops ECA table, as big-hitters flounder

In a development that might raise a few eyebrows in the export finance world, Italian export credit agency (ECA) SACE has topped the ECA export finance table in the first half of the year – according to TXF's *H1 Export Finance Report.*

Knocking the previously-unassailable JBIC off its perch, SACE supported export finance volumes worth $4.05 billion in the first half – a staggering 249% year-on-year increase. The Italian institution's star performance was matched by strong showings from its European counterparts, and contrasted by heavy declines for the traditionally-dominant US and East-Asian ECAs.

RISING FROM THE ASHES

But with the substantial size of the Italian export market, the dominant display from SACE should not come as too much of a surprise, one export finance director at a US bank tells *TXF*. "Italy is a huge exporting country in Europe, so typically SACE should always be up there," he says. "Since 2008, when credit spreads were blown out on Italy, banks have been full up on the country and thus able to do less with SACE. Also, Basel regulations mean that it costs more to do SACE deals, rather than someone like Euler Hermes in Germany. But on a manufacturing level, Italy's a big exporter so if you get some of the big shipping deals in there – Fincantieri, MSC etc – and add that to deals such as Eurochem in Russia, it doesn't seem that surprising." And over the last 12 months, the source adds, pricing has come down – making SACE more competitive and consequently increasing the number of banks willing to work with the ECA.

SACE has also benefitted from its ability to look to new, growth markets for opportunities – particularly the Middle East, a market that has grown 18% year-on-year. Says an export finance head at a UK bank: "We've been working with SACE for many years. I think it gets peaks and troughs, but at the moment their pipeline is very significant – I think it shows their flexibility

Top ECA covered by volume H1 2015

		USDm	%
1	SACE	4,075.5	13.1
2	JBIC	3,318.9	10.8
3	COFACE	3,065.9	9.9
4	K-SURE	3,002.8	9.7
5	US Ex-Im	2,668.6	8.6
6	KEXIM	2,510.2	8.1
7	EKF	1,841.5	6.0
8	Finnvera	1,539.6	5.0
9	UK Export	1,483.7	4.7
10	Euler Hermes	1,230.9	3.9

Top ECA covered by volume H1 2014

		USDm	%
1	US Ex-Im	6,815.1	15.8
2	JBIC	5,995.2	13.9
3	K-SURE	4,298.4	10.0
4	Euler Hermes	4,140.4	9.6
5	NEXI	3,230.5	7.5
6	KEXIM	3,008.1	7.0
7	CESCE	1,558.7	3.6
8	Sinosure	1,466.1	3.4
9	EIB	1,403.1	3.2
10	COFACE	1,402.1	3.2

and their openness to new markets. It certainly reflects the increase in the Middle East: there's a lot of activity in the region that the Italians are supporting."

Another reason for SACE's rise has been an improvement in its management, says the US banking source. Cassa Depositi e Prestiti, Italian Postal Bank, acquired the ECA in 2012 and has since streamlined its processes to allow it support more transactions.

The UK banking source shares the sentiment: "I think SACE has become the more dynamic of the European ECAs. They have been given a lot of rope by the Italian government, and they run themselves like a business and not like a government department. I think their commercial prowess has been there for a while but it's now being reflected in volumes."

NORTH AMERICANS AND EAST ASIANS FALL AWAY

But one particularly evident feature of the first half's ECA league table was the poor performance of the market's traditionally-unmatched powerhouses: the North American and East-Asian ECAs.

Export Development Canada (EDC) endured a torrid time of it, dropping to 11th in the rankings with a 32% decline in volumes. EDC's neighbour, US Ex-Im, fell to 5th after it recorded a considerable 61% drop – the reasons for which lie the highly-publicised political travails the bank faces at present. "It's very simple with Exim: people have put things on hold because of the reauthorization debate," says the US banking source.

Coming as more of a surprise, though, was the decline of the East-Asian ECAs. Korea's K-sure and Kexim came in 4th and 6th, with respective volume reductions of 30% and 24%. But their previously-indomitable Japanese counterparts did even worse. Volumes covered by JBIC fell 34% to $3.98 billion in the half, seeing it drop to second in the table; and compatriot NEXI experienced a dramatic 81% decline, resulting in a precipitous slide down to 13th.

Much of the Japanese slump was as a result of the lack of mega-projects in first half. "The Japanese ECAs tend to be project-finance heavy, which is lumpy by nature," says the US banking source. "Commodity project finance deals are down, so that will affect Japanese exporters." Last year, there were some large LNG projects in the US – including Cameron LNG and Freeport – which had around $10 billion of Japanese support, evidences the source. And there was also strong Japanese involvement in the $7.2 billion Roy Hill iron ore project in Australia. "Those are one-off projects, that if you take out, create quite a dent," says the source.

Another reason for the Japanese ECAs' decline has been the slowdown of some of their core markets. Says the UK banking source: "Some of the markets in which they were trying to drive the agenda – such as LatAm and Africa – haven't been as successful for them. They're still very Asia focused, where there is still business being done. But some the other markets they have been looking at, like Saudi and Russia, aren't quite at the same volume as they have been, and therefore the Japanese are going to have to re-focus their attention."

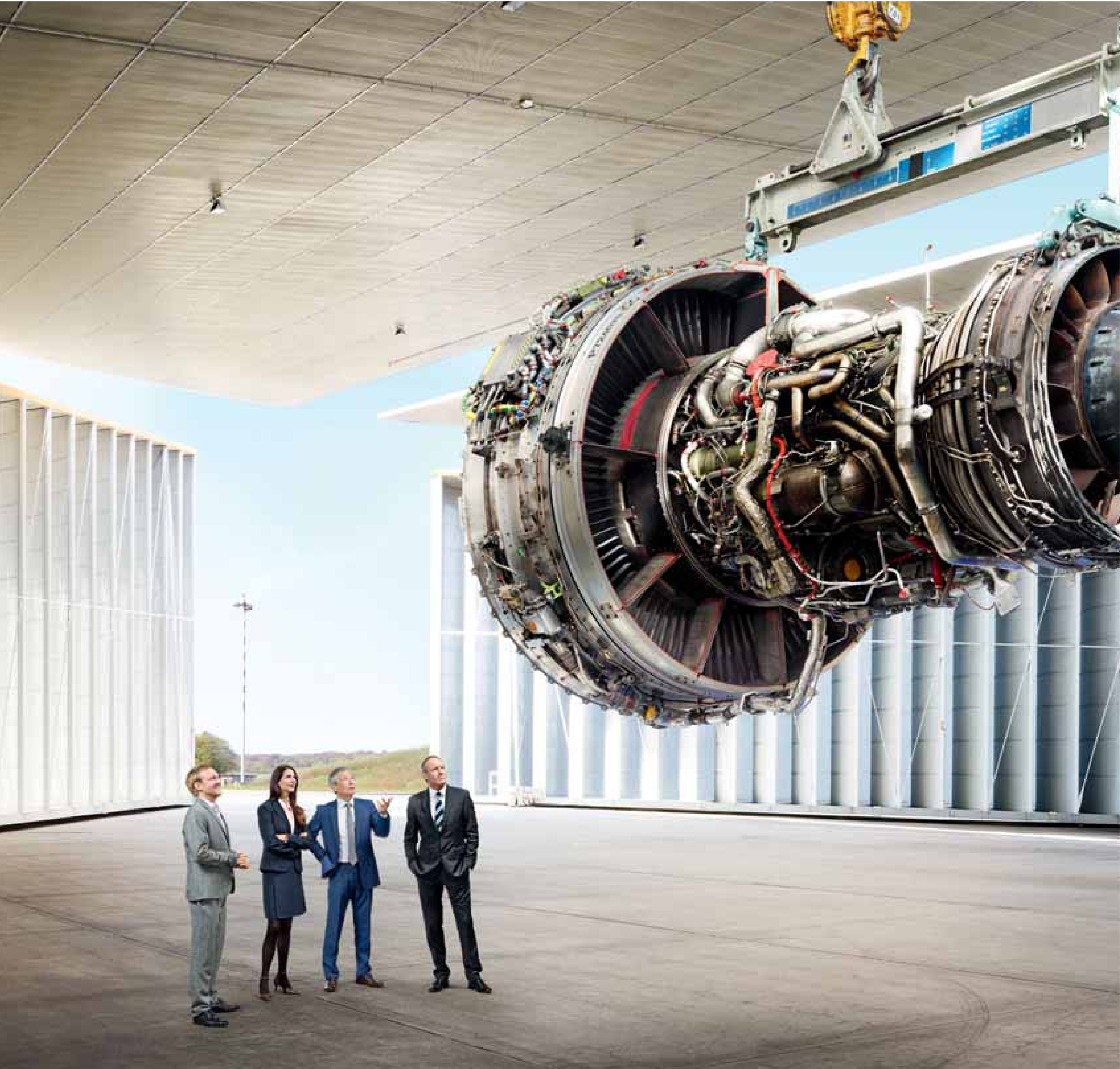
EUROPEAN ECAS PROSPER

But one ECA's loss, is another's gain. And as much as the East-Asian ECAs have cause to commiserate, as do their European rivals to celebrate. Behind SACE, France's Coface was Europe's stellar performer – jumping to third in the table after a remarkable 119% increase in volumes covered. One institution that bucked the trend, however, was Germany's Euler Hermes – who fell to 9th in the rankings after a 70% slump.

A special mention must go to the historically-diminutive pair of Finland's Finnvera and Britain's UK Export Finance (UKEF). Finnvera surged to 7th with an impressive 201% increase in volumes covered – "they have done a lot in shipping this year," explained the UK banking source. And UKEF slotted in one place below in 8th place, with an identical 201% uptick in volumes.

UKEF's rise has been on a back of a concerted effort by the UK government to revitalise the country's export industry. Says the source: "There's a very strong UK government push to support them [UKEF]. They really have become much more flexible in their offering and as a result have supported some pretty innovative structures. It shows the difference in trust compared to the Blair/Brown years." ■

**NB: The data presented in this report is derived from tagmydeals.com which is our user-generated deals database. We rely on institutions submitting deals to us and hence do not cover the whole market. If you are interested in the volumes of individual export credit agencies (ECA), please also check the company reports of the specific ECA you want information on.*



››› Constructed. Financed. Exported.

The moment of completion is always the highlight of any technological project. To successfully export skilful engineering needed in projects like these, German and European industries trust the experts at KfW IPEX-Bank. We have been offering our partners individually structured long-term financing solutions for over 60 years. We know our customers, their countries and industries. They can rely on us from start to finish – from the idea behind it all along the entire development process to its global marketing. For further information about our bank and more special moments, visit us at **www.kfw-ipex-bank.de**

KFW IPEX-Bank

The saga of US Ex-Im

CC Solution's Valerie Colville discusses how the US export credit agency's charter came to expire on 30 June, what is likely to come next, and what can be done to bring the bank back from the dead.

WOULD you close a company that supports 160,000 jobs and makes $675 million in profit? That is exactly what the US Congress did by failing to renew the Export-Import Bank of the United States (US Ex-Im). US Ex-Im is, or rather was, the second largest export credit agency within the OECD consensus, and the third largest globally behind China and Japan. Why this happened to US Ex-Im, and what could happen next, is multifaceted, political and murky. The answer lies somewhere at the intersection of politics, ideologies, voting procedures, and wealthy conservative Republicans like the Koch brothers.

The bank was created over 80 years ago to boost US jobs by helping to finance the export of American goods and services. In just the last six years, US Ex-Im has supported 1.3 million private sectors jobs and over $27 billion in US exports. While this accounts for only 2% of total exports, the bank works with companies large and small to help them compete globally. With all of these positive attributes that benefit the US economy and its workers, the fact that Congress chose to let the charter expire on 30 June 2015 is symptomatic of a house divided – specifically the House of Representatives.

CRASHING THE PARTY

Reauthorisation of US Ex-Im has historically been a smooth, bipartisan process. In fact, historically its strongest proponents were pro-business Republicans. That all changed a few years ago when a small group of conservative Republicans decided that the bank was the prime example of government intervention in private-sector business. Calling themselves the Tea Party, they are a fractious, powerful subset of the Republican Party.

Valerie Colville at CC Solution

The Tea Party is well funded and its congressional members are vocal, active and resolute in their ideology. It is widely reported (and equally denied) that the Koch brothers – owners of the second largest private company in the US – have allocated over $100 million to help fund conservative policy advocacy organisations such as Heritage Action for America, Americans for Prosperity and the Cato Institute. Through these lobbying groups, along with several others funded by other wealthy Americans, the Tea Party has grown in strength and influence.

The perfect storm against US Ex-Im started in earnest last year. Congressman

Why this happened to US Ex-Im, and what could happen next, is multifaceted, political and murky. The answer lies somewhere at the intersection of politics, ideologies, voting procedures, and wealthy conservative Republicans like the Koch brothers.

Eric Cantor (Virginia), then House Majority Leader, lost his House seat to a Tea-Party conservative. Cantor had been a strong US Ex-Im supporter. When he lost, the Tea Party quickly rose in rank in the House. And with that came the refrain to disband US Ex-Im, the supposed poster child of corporate welfare.

A significant portion of US Ex-Im's transactions support major US exporters like Boeing and GE, but the Tea Party hold that these financially strong US-based companies should not need government financing to facilitate overseas sales. But while these large companies indeed benefit from US Ex-Im financing, so do the thousands of other US companies who act as their sub-suppliers. Over 90% of US Ex-Im's transactions are actually made to small, independent businesses throughout the US. These conservatives are putting thousands of US businesses at a competitive disadvantage because of their own misguided ideology.

LAGGING BEHIND INTERNATIONAL RIVALS

Here is the conundrum facing US businesses: without US Ex-Im, there is no export credit agency (ECA) to help them compete against their global competitors who, themselves, have active ECAs. In fact, over 60 countries have export finance agencies supporting their countries' exports. In 2014, China's ECAs (yes, they have more than one) approved over $40 billion in long-term export finance. Adding in short-term trade finance, China's export support approached $400 billion. Japan's two agencies, JBIC and NEXI, provided approximately $29 billion in long-term financing. Korea's agencies approved long-term export financing exceeding $14 billion. US Ex-Im's long-term approvals were less than $10 billion, and its total approvals just under $30 billion.

China's $400 billion versus US Ex-Im's $30 billion. So why is there even a debate, hasn't the US already fallen behind?

Ideologically, it would be great if private-sector banks could finance US exports. Unfortunately, reality flies in the face of ideology. Boeing no longer has US Ex-Im. But its primary competitor, Airbus, has not one, but three agencies supporting it. The UK, German and French ECAs work together to offer Airbus buyers the best possible ECA finance package to incentivise a purchase. How is Boeing going to compete without US Ex-Im? This applies to US companies across the business spectrum. Overseas exporters have active agencies to tempt buyers; the US does not.

A POLITICAL QUAGMIRE

The likelihood of US Ex-Im eventually being reauthorised in 2015 is mired in Congressional trading chips. Taking a step back, let's consider what happened to US Ex-Im just days prior to 30 June (the day its charter expired and Congress recessed for the summer). US Ex-Im supporters in both the Senate and House fought tooth and nail to get the ECA renewed. Senator Mitch McConnell, the Majority Leader of the Senate (and a Republican), allowed a vote to reauthorise to proceed as part of a must-pass US federal highway bill. The highway bill, also expiring on 30 June, needed to be authorised in order to keep highways and related infrastructure across the US funded and operational. When the vote came to the Senate on 26 June, a bipartisan majority of Senators voted in favour of the highway bill and, along with it, US Ex-Im's long term reauthorisation (64 yes, 29 no).

The next day, the Senate bill arrived in the House of Representatives for a vote. The House rejected the Senate highway bill and simultaneously stripped out US Ex-Im. Within a day, the House crafted a new version of the highway bill, without US Ex-Im in it, voted in favour and then promptly adjourned for summer recess (two days early). This left the Senate with no time to counter, negotiate or otherwise react.

AN UNAUTHORISED US EX-IM: THE INS AND OUTS

So US Ex-Im's authority has now lapsed. What does this really mean in practical terms? US Ex-Im is prohibited from processing new applications. Applications that were in-house prior to 30 June are sitting idle. Federal law prohibits US Ex-

Im's employees from engaging in anything pertaining to new deals. Internally it is referred to as "pencils down". The bank is also barred from discussing, negotiating or executing amendments or waivers to existing transactions. And when export credit insurance policies mature, they cannot be renewed.

On the positive side, US Ex-Im transactions that have achieved financial close will be funded and processed through final disbursement. And, they will continue to carry the full faith and credit of the US government. Transactions that are approved, and are in the active process of financial closing, will similarly be honoured. This pertains to all products offered by US Ex-Im (loan guarantees, direct loans and all insurance programmes). The bank remains fully-staffed and personnel are reporting to work: business (almost) as usual.

US Ex-Im chairman, Fred Hochberg, recently stated that approximately $9 billion of applications are in-house and unable to be processed. These deals are 'stuck' in mid-stream approval. Companies impacted range from small businesses exporting everything from cosmetics to compressors and pumps, to major manufacturers of power equipment, petrochemical and refinery equipment, satellite systems, locomotive and train sets, medical devices and manufacturing equipment. Nearly every congressional district in the US has a company that has used US Ex-Im financing. The lapse is already negatively affecting US export volumes, financial performance and jobs for American workers.

WHAT'S NEXT?

Congress comes back from summer recess on 6 September. US Ex-Im is just one of a myriad of complex issues and actions that will have to be voted on by both the Senate and the House. The most pressing piece of business facing Congress is the funding of the entire US government, which expires on 30 September. US Ex-Im, as a federal agency,

Over 90% of US Ex-Im's transactions are actually made to small, independent businesses throughout the US.

is funded (appropriated) only until that date, along with the every other part of the government.

Is there a risk of Congress not agreeing on the country's annual budget? Maybe. This is exactly what happened in October 2013, when the federal government shut down and routine operations ceased. This event occurred because Congress neither appropriated funds for fiscal year 2014, nor issued a continuing resolution (CR) for the interim authorisation of appropriations for fiscal 2014 (the US government fiscal year ends on 30 September). On 17 October 2013, federal government operations restarted once Congress signed an interim appropriations bill into law. During the shutdown, approximately 800,000 federal employees were furloughed, and 1.3 million were required to report to work without current pay (all were made whole when the government resumed operations). Throughout the shutdown, US Ex-Im continued to disburse funds, process claims under insurance policies and manage its portfolio.

There is a lot of confusion about what happens to US Ex-Im after 30 September. For example, Vice News recently reported that US Ex-Im will cease operations on 30 September. This is incorrect. The US Ex-Im memo that Vice referenced explicitly pertains to the cessation of certain operations if Congress fails to appropriate the entire US government like it did in 2013. To repeat, the Vice memo refers to appropriation, not authorisation. The distinction is important. Appropriation effects all US government operations, authorisation effects US Ex-Im and its ability to enter into new transactions. US Ex-Im's battle is being waged over its authorisation to exist and conduct new business.

When Congress passes a continuing resolution or appropriation to fund the federal government, US Ex-Im will be part of that budget, along with every other US federal agency. Although a slight risk exists of a temporary federal shutdown come 1 October, it would not last long. And even if that happens, US Ex-Im would continue to fulfill obligations for existing transactions.

The path to US Ex-Im's reauthorisation is unclear. There is still strong support for the ECA in the Senate. Pundits believe that reauthorisation will become part of, and approved under, a Senate bill sometime before 18 December 2015. Which Senate bill, and when exactly, is unknown.

The maelstrom arises in the House – reauthorisation needs approval in both chambers of Congress, Senate and House. Opponents are expected to remain rigid in their resolve to abolish the ECA. Jeb Hanserling (Texas), chairman of the House Finance Committee, will not support a vote for US Ex-Im before his committee. Speaker Boehner (Ohio) will then need to bring US Ex-Im to a vote through alternate means, which will be challenging. House majority leader Kevin McCarthy (California) is also against the bank, and he is responsible for scheduling votes on the House floor. House minority whip, Steve Scalise (Louisiana), is similarly anti-US Ex-Im. All of these men are conservatives and Tea-Party ideologues. They blocked a vote for the ECA in June, they will likely try to do so again this Fall.

House Democrats favour US Ex-Im. So do many Republicans who understand the practical value. It is rumored that Speaker Boehner supports the ECA, but he must calculate the cost to his own career. Will he bring US Ex-Im to a vote and let the House of Representatives do their bidding and truly represent their constituents? Or, will he bow to the pressure (and considerable funding) of conservative lobbyists and their anti-government rhetoric, and block a vote to reauthorise? At this point, it's anyone's guess. And while we all wait, American businesses

China's $400 billion versus US Ex-Im's $30 billion. So why is there even a debate, hasn't the US already fallen behind?

continue to lose revenues as transactions sit idle. Some buyers have already decided to buy from non-US exporters in countries that have active export credit agencies.

RALLY FOR REAUTHORISATION

While the conservatives thump their chests and pat themselves on the back for their success in stopping US Ex-Im, others are suffering the consequences of these actions. For those who want to help bring back the ECA, contact members of Congress and let them know that US Ex-Im matters to your business. Pick up the phone and call them in Washington or at their home offices. The Coalition of Exporters for EXIM provides the phone numbers and emails for every Senator, House of Representative Member, and all of their staffers and schedulers (go to exportersforexim.org/resources and open "Contact Information for Congressional Schedulers"). Or, contact the US Chamber of Commerce's international division, or the National Association of Manufacturers (both organisations are actively working toward reauthorising the bank).

Now is the time to bombard Congress with the consequences of US Ex-Im's lapse: stories of lost business, loss of earnings, stalled transactions, lack of competitiveness, and negative influence on US jobs. The more local the impact, the more likely it will be heard. Regardless of where you are in the world, if US Ex-Im matters to your business, take a minute or two and contact the Congressional representatives. Ask them to bring a vote on behalf of US Ex-Im to the floor and to then vote "yay" in favour of the ECA's immediate reauthorisation. Without your action, US Ex-Im may become extinct. ■

These conservatives are putting thousands of US businesses at a competitive disadvantage because of their own misguided ideology.

Small world,
here I come

Explorers used to cross oceans to meet new civilisations. Today we contact each other from the Great Wall of China to the shores of the Baltic Sea. Are you tapping into the potential of your local markets? Our global network of professionals can help break down borders anytime.

To find out how we can help you develop lasting connections, go to ingcb.com.

[World, here I come]

ING

ING Commercial Banking

The CLR/TXF 2015 Exporter Review

We present here the first-ever Exporter Review. After hard work, meticulous preparation and first insights provided at the TXF ECA Finance conference in Paris, we are very happy to make the Exporter Review available globally. Imagine: anonymous 30-minute interviews with 50 corporate exporters, allowing the interviewees to speak up and share their experiences – and at the same time rate ECAs and banks on different sets of criteria, providing for some very interesting benchmarks.

THROUGH March-May 2015, TXF and Clevis Research (CLR) worked closely together to make the Exporter Review happen. The result is more than 55 pages of export finance industry trends, views and opinions on globally relevant economic topics, performance indicators on banks and ECAs, exposing their strengths and weaknesses, detailed and insightful information on certain practices within the industry and much, much more.

HIDDEN IMPACTS OF BASEL III

Exporters are very wary about the impact of Basel III and how it will influence their business. Some believe it will increase demand for ECA services, whereas others think the only influence it will have is a lower risk appetite by banks. Around 40% of the interviewees stated that they are not worried about Basel III.

This view encapsulates how Basel III has the potential to impact the logistics of doing a deal:

"Basel III might have additional indirect influences on financing costs by increasing the processing time and bureaucracy of transactions." – Project finance director

TOUGH TASK FOR SMES

The corporate world sees agency-backed finance to be reasonably priced, although the general view leans towards overpricing. Some point out that financing for SMEs is nearly impossible. Agency-backed financing is priced too highly, according to almost 25% of the interviewees. One head of project finance reflects on that trajectory:

"Banks are going back to the pre-crisis prices, so prices are generally decreasing. ECAs, on the other hand, are slower to react. This produces a higher demand for export-financing banks, which will result in higher

On the bank side, a couple of key global banks were identified as being lacking in flexibility – a key focus area for exporters. On the bright side, however, Deutsche Bank and KfW Bank were the leaders of the pack.

EKN and EKF were praised for their flexibility and acceptance to approach every project in a different way.

financing prices if the ECAs are unable to offer competitive prices." – Head of project finance

MIXED SCORES

The following factors were identified as potential threats to the export-finance industry: national content, politics and market-related risks.

Only four banks managed to impress exporters in the field of risk appetite and breadth of product.

In comparison, most of the banks scored highly on customer service, speed and quality of execution, as only a few did not manage to make the cut.

As for flexibility/innovation, a handful of banks distinguished themselves to be top of the league.

A couple of ECAs managed to differentiate themselves from the pack through their outstanding flexibility/innovation and high-risk appetite.

Overall, the majority of ECAs scored very high on customer service.

WHAT THE EXPORTERS REALLY THINK...

Both banks and ECAs were rated on multiple criteria. On the bank side, a couple of key global banks were identified as lacking in flexibility – a key focus area for exporters. On the bright side, however, Deutsche Bank and KfW Bank were the leaders of the pack. What made the difference?

"Deutsche Bank is exceptionally flexible during complex deals. However, this is partly due to the fact that they mostly do business with long-term clients."

German banks also performed very well, according to the exporters, when it comes to banking professionals being able to understand clients' businesses.

And as for other criteria, exporters took the time to elaborate on issues and outstanding performances. Here are some examples of comments:

"Most exporters agree that BNP Paribas, for the most part, has a very pragmatic approach, which helps to speed up the deals and processes."

Export finance banks ranking – table overview
(*NB: The full names and results are available to those purchasing the full report.*)

	Bank 1	Bank 2	Bank 3	Bank 4	Bank 5	Bank 6	Bank 7	Bank 8	Bank 9	Bank 10	Bank 11	Bank 12	Bank 13	Bank 14	Bank 15	Bank 16	Average
Flexibility	7.25	6.42	7.3	8	7	6.8	7.2	7.25	7.33	8	7.5	7.5	7	5	7	7	7.10
Understanding of business	7.67	8	7.56	8.13	8.2	7.4	7.6	7.67	7.5	8	7.5	7.5	8.5	7	7	7	7.64
Risk appetite	6.76	6.64	6.42	7.89	7.78	7.17	7.33	7	5.33	6.67	7.5	8.5	7	8	7	8	7.19
Capacity	8.33	8	8.8	8.56	7	7.33	7.83	8.67	8	8	7.5	9	7.5	6	9	8	7.97
Breadth of prod. Offering	7.46	7.27	7.63	7.63	7.4	7.17	7.5	7.33	7	7	7	7	6.5	7	6	7	7.12
Speed/Quality of execution	7.67	7.88	8.04	8	7.94	8.17	7.83	7.25	5	7.67	7.5	8.5	7.5	8	8	7	7.62
Customer service	8.92	8.3	8.75	8.57	8.2	8.8	8.67	9.33	9	8.67	9	8	7.5	7	7	8	8.36

The survey includes scoring cards on the most frequently used ECAs and banks in the market, with specific quotes from exporters about their performance – unlike in this teaser version, the full version includes information on named banks and ECAs.

"Our global bank is too cautious about environmental projects."

"Our relationship bank has a limited view and perception on projects. Most of the time they only look at it from a bank's perspective."

"Speed and quality of execution of Commerzbank are two of its most compelling characteristics."

Moving to the ECAs, exporters were also very keen on sharing their opinion and experiences. As seen below, the understanding of the business, capacity and customer service were criteria that performed very well. However, multiple ECAs failed to meet the average and fell below, for multiple reasons.

EKN and EKF were praised for their flexibility and acceptance to approach every project in a different way. However, many other ECAs did not receive that praise:

"Our home ECA is too predictable and regulated."

"The ECA we work with most is too strongly regulated, which slows down the speed of execution and increases the complexity of the entire transaction. This appears to be the main reason why a compelling amount of exporters try to work more with export-finance banks with high industry knowledge of that market before requesting a deal with the ECA."

In terms of risk appetite, the main ECAs were near each other – although demands from exporters remain rather high:

"There is not enough room for negotiations, which causes many potential profitable projects to suffer."

HOW THIS RESEARCH CAN HELP YOU

TXF and CLR continue to expand the know-how provided to us by the exporters and further increase the participation rate of the study, before launching it globally.

If you have any questions about this study, the applied methodology or the information given, please don't hesitate to get in touch with us.

In order to obtain a copy of the Export Survey conducted by Clevis/TXF Media, please contact Dominik Kloiber or Ludwig Preller (details below).

The survey includes scoring cards on the most frequently used ECAs and banks in the market, with specific quotes from exporters about their performance – unlike in this preview, the full version includes information on named banks and ECAs. This survey will therefore help benchmark your institution against the key players in the market, and will also give you market trends as seen by exporters. ■

Contact

Clevis Research GmbH
Ludwig Preller
Managing director
+49 172 89 59 200
l.preller@clevis.de

TXF: Trade and Export Finance
Dominik Kloiber
Commercial director
+44 (0) 20 3735 5180
dominik.kloiber@txfmedia.com

Why the ECAs should carry on competing with the private-insurance market

Charles Berry, chairman of specialist insurance broker BPL Global, argues that as exporters and banks now often have a choice between ECA and private-sector cover, ECAs now find themselves competing within a market and therefore need to follow market practices, including those relating to sharing risks.

The export credit agencies (ECAs) and the private insurers come from different worlds. Nothing illustrates this better than the issue of competition:

- With their government backing and mission to support their exporters, the concern with ECAs is that they may distort markets by engaging in subsidy wars with their rival ECAs. As a result the ECAs have agreements designed to limit competition between them and promote cooperation.
- Given their profit motive, the concern with private insurers is that they may distort the market by entering into agreements or concerted practices that restrict competition. As a result, private insurers are governed by rules designed to promote competition and limit cooperation.

These different views of competition and cooperation are on a collision course. Despite their belief to the contrary, the ECAs are increasingly in competition for the same business as the private insurers. Furthermore risk sharing between the ECAs and the private insurers is rightly on the increase, but the issues thrown up need thinking through.

ECAS: COOPERATION GOOD, COMPETITION BAD

Of course the EU ECAs do not compete with private insurers for so called 'marketable' risks, as they are banned from writing business where the private insurers are judged to have sufficient capacity to cover all economically justifiable risks. 'Marketable' risk is currently defined by the European Commission (EC) as short-term risks with credit periods of up to two years, within the EU and certain core OECD countries.

Charles Berry, chairman of BPL Global

EU ECAs are therefore permitted to write all medium and long-term (MLT) business globally and other short-term business deemed 'non-marketable'. In these areas, where subsidy is the danger, competition between ECAs is limited and cooperation encouraged mainly through the OECD Arrangement between the EU and a core group of OECD countries. Designed to end the subsidy war between their ECAs, the Arrangement is a voluntary agreement, originally focused on terms of credit when it was introduced in the late 1970s. Regularly updated since, the Arrangement has been extended recently to include minimum premium rates.

Cooperation extends to risk sharing between ECAs where this is necessary on

multinational projects. ECAs enter into cooperation agreements with one another, and confer on the terms and conditions of coverage that they jointly offer.

The Arrangement is proving successful: in the past 20 years the developed-world ECAs have ceased to be a drain on their taxpayers' resources, and have become cash generating machines as befits national monopolies operating in a cooperative environment, with limited competition and offering limited choice to clients.

PRIVATE INSURERS: COMPETITION GOOD, COOPERATION BAD

In the private insurance market, including the specialist credit and political risk insurance (CPRI) market, competition between insurers and choice for clients is ingrained. Private insurers are subject to competition law. Such law generally prohibits all agreements or concerted action between rival insurers that prevent or restrict competition. It is inconceivable that private insurers could be party to an agreement like the OECD Arrangement. Insurers are allowed to cooperate in certain very-limited circumstances either under the general provisions of competition law or specific exemptions, but to the layman, any talk of 'cooperation' between private insurers in responding to a client's enquiry would simply suggest collusion.

The limited area in which private insurers may cooperate certainly does not extend to ad hoc coinsurance arrangements in the subscription market, where large and complex risks are shared between rival insurers. On the contrary, competition authorities, particularly in the EU, have had concerns that risk sharing in the subscription market may involve anti-competitive practices, particularly relating to the harmonisation of pricing. In the wake of official scrutiny, the private insurers' process for sharing risks has recently been upgraded to make the market even more competitive.

Nothing better illustrates the gulf between the worlds of the ECAs and the private insurers than this process of sharing risk. Indeed the process of risk sharing in the subscription market seems completely alien to ECAs that assume all risk sharing involves cooperation, ie insurers conferring with each other. The reality, however, is that when they share risks, rival private insurers do not cooperate or confer on either pricing or other terms of cover.

Competition remains embedded in the process because risk sharing is arranged by the client, not by the insurers: each insurer speaks only to the client (or the client's broker); the insurers do not confer; each insurer must compete with other potential participants for a share in the placement. Even if an insurer can only write a small portion of the risk, it cannot speak to rival insurers. Rather an insurer who can offer only a 5% or 10% participation must compete with the rest of the market for a participation in the placement. The subscription market process applies to all risk sharing between rival insurers operating at the same level of the market, regardless of whether the risk sharing is co-insurance or, more rarely between rival private insurers, facultative reinsurance.

Consider three insurers each offering competing terms for 50% of a client's risk: two of them can fill out the order, and one will miss out. So long as the competing insurers do not confer, the client has choice and commercial leverage. If any two of the three 'cooperate', they can dictate terms to the client. So the competitive dynamics of the subscription market are underpinned by its golden rule: rival insurers do not confer. 'Cooperation' – meaning collusion – between competing insurers would only result in them agreeing to take less risk for more premium, at the client's expense.

This subscription market best practice preserves the fundamental market principle that client choice governs how business is allocated between competing suppliers in a market. Essentially, any 'cooperation',

These different views of competition and cooperation are on a collision course. Despite their belief to the contrary, the ECAs are increasingly in competition for the same business as the private insurers.

agreement or understanding between competing suppliers that limits the client's choice or restricts competition would be illegal.

Developments in the private CPRI market mean that the cooperative culture of the ECAs and the competitive culture of the private insurers are beginning to clash.

THE GROWTH OF THE CPRI MARKET

The ECAs' past virtual monopoly of the 'non-marketable' risk area is coming under pressure. The specialist CPRI market (which stands apart from the short-term, multi-buyer trade credit insurance market that is the main beneficiary from the EC's ban on 'marketable' risks) has grown significantly over the past few decades, and particularly since the 2008 global financial crisis. With over $2 billion of annual premium and more than $200 billion of exposure at any one time, the CPRI market is not small. Like the ECAs, it writes MLT business with periods of up to five or seven years for private obligors, and seven to ten (or even 15) years for government and sovereign obligors, as well as a smaller amount of specialist short-term business. Moreover the CPRI market is more exposed in high-risk emerging markets than the ECAs are, supporting our view that the private insurers, rather than the ECAs, have more appetite for riskier business. Given that 93% of BPL Global's portfolio, which is typical of the CPRI market, is in EC terminology 'non-marketable' risk, it is fair to say that the CPRI market is the market for 'non-marketable' risk.

Should the EC revise the definition of 'marketable' risk, and expand the forbidden area for its ECAs? Definitely not. The CPRI market is capacity constrained. This constraint is rarely at the transaction level,

but rather at the aggregate level, particularly for country aggregate. As these aggregate country limits are small in relation to total demand for cover, the CPRI market can write almost any economically justifiable transaction falling within the category, but it cannot write all those transactions.

Therefore the ECAs are needed, not only in their traditional role of writing business for which no market exists, but also in the subtly different role of providing capacity for marketable risks, albeit marketable risks that are capacity constrained at the aggregate level. To use an example, the private market can now meet some of the demand for short-term and MLT cover for government and private obligors in countries from Angola and Brazil, through China and Ethiopia, and on to Zambia, but it cannot meet it all.

WHY ECAS AND PRIVATE INSURERS SHOULD COMPETE

How should such capacity-constrained marketable risks be allocated between the private insurers and the ECAs? The only sensible option in this 'non-marketable' area of risk is a policy of coexistence: the ECAs should quote business that meets their eligibility criteria and risk appetite in accordance with the OECD Arrangement (including the agreement on minimum premium rates) and simply ignore whether private insurers are quoting the same business and their price. In this way, capacity-constrained marketable risks can be allocated between the ECAs and the private insurers through the market mechanism of client choice.

Let's be clear, however: a policy of coexistence means that where the private

insurers quote terms for a particular risk in this area of capacity-constrained marketable risk, the ECAs will offer terms in competition to the private market. Furthermore, where the private market's best price is higher than the OECD minimum premium rate (which is very likely whenever the private market's scarce aggregate capacity causes premium rates to rise above the level that would be expected in a market that was not capacity-constrained) the ECA offer is likely to undercut the private insurers on price. But does this not conflict with the principle of subsidiarity, meaning, in the words of one leading EU ECA, "that government export credit guarantees are only available if no private-sector credit insurer is able to provide the necessary cover"? Aren't ECAs meant to be operating outside the market?

Put simply, any ECA that applied the doctrine of subsidiarity literally in this area of capacity-constrained marketable risk would simply distort the market. Withdrawing ECA capacity from the market whenever private insurers quote a particular risk (and whatever price the private market quoted) would deliver to that ECA's clients a double blow: first, they would be deprived of the ECA option, still often the better, preferred option; second, its clients would likely receive higher private market premium pricing. If an ECA was to withdraw its capacity every time the private market quoted, this would exacerabate the capacity problem in the short-term and put up prices.

In a nutshell, the ECAs need to provide capacity to the market in the area of capacity-constrained marketable risks, not withdraw their capacity every time the private market quotes a risk. The strict application of the doctrine of subsidiarity would simply distort the market and require the ECAs to stop writing most of the business they currently write by case volume, if not necessarily by aggregate exposure.

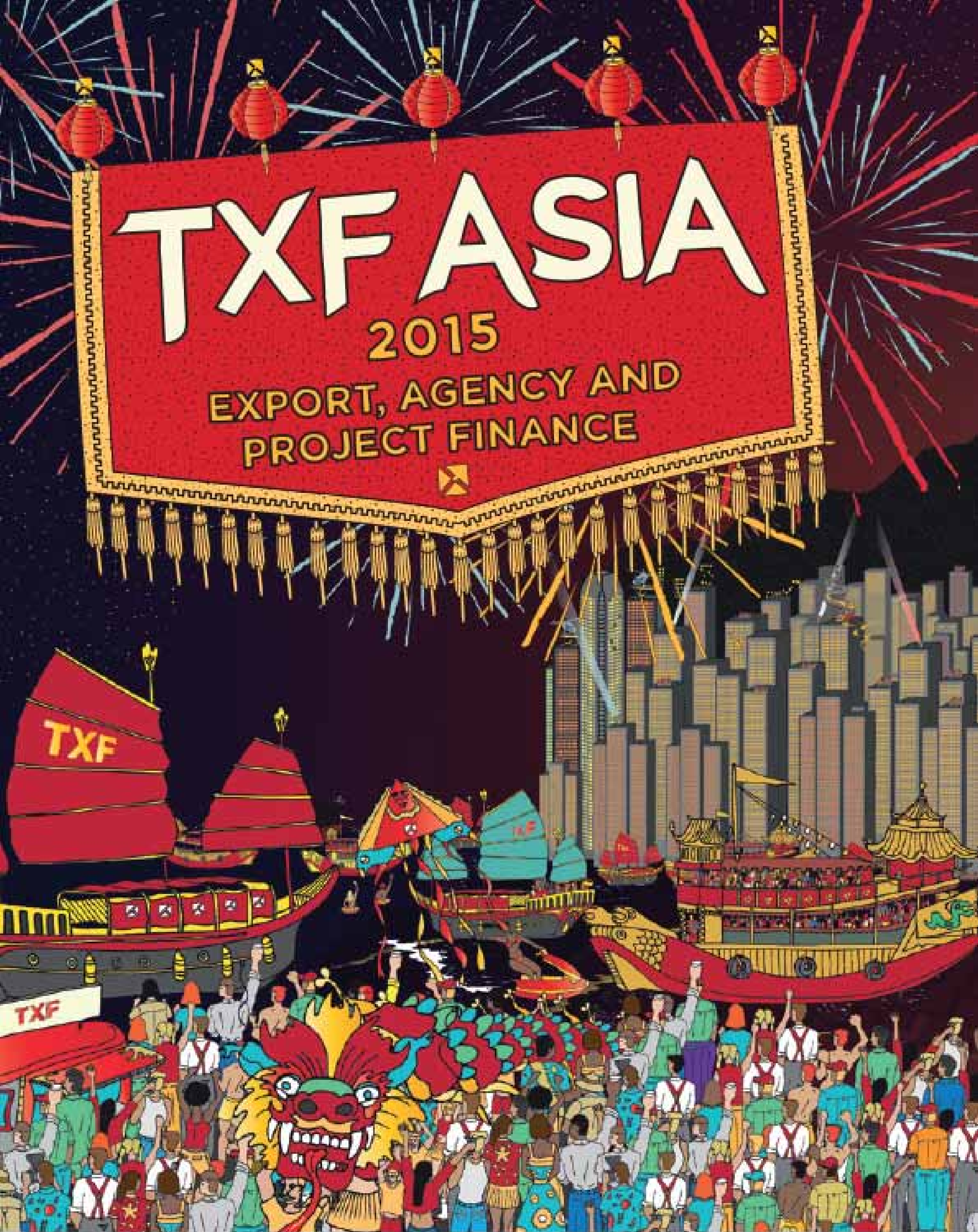
It is well known in the CPRI market, and increasingly accepted, that when the ECAs in Europe say they do not compete with the private market, they really mean they do not compete with the private market for 'marketable' risk as defined by the EC. In practice, the EU ECAs rightly follow a policy of coexistence when it comes to risks deemed 'non-marketable' and quote for business that could very well be written by the private market. The change needed is to the rhetoric: "the ECAs do not compete for fully-marketable risks"; or better, "the ECAs only compete with the private insurers for capacity-constrained marketable risks".

Clients need the clear message that for capacity-constrained marketable risks, they have a choice. They do not risk losing the ECA option if they apply for the private-market alternative. The current ECA rhetoric may actually discourage clients from approaching the private market at all: taken literally, subsidiarity requires that if the private insurers offer terms, the ECA should not. What bigger disincentive could there be for a client even to approach the private market when it suspects ECA cover may be the better alternative?

Does a policy of coexistence, of a mixed market of ECAs and private insurers quoting the same 'non-marketable' risks, involve unfair government competition? As explained above, there is no reasonable case to be made that the developed world's ECA activities constitute government subsidy. So long as the ECAs follow market-related minimum premium rates laid down by the OECD, the private insurers cannot complain of unfair government competition.

Is the government crowding out the private market? There is certainly a case

The only sensible option in this 'non-marketable' area of risk is a policy of coexistence: the ECAs should quote business that meets their eligibility criteria and risk appetite in accordance with the OECD Arrangement (including the agreement on minimum premium rates) and simply ignore whether private insurers are quoting the same business and their price.



OCT 28 & 29 2015
W HOTEL, HONG KONG

This year, TXF Asia will yet again turn the tables on the conventional ECA finance conference approach, and address issues in a way that is solution driven and forward thinking.

Price: £2199

For earlybird and group discounts please email Alexandra.Shatova@txfmedia.com

Visit www.txfnews.com/events to book or call +44(0)203 735 5180

TXF

Partners

Sponsor

Supporter

for this at the transactional level at the moment. In fact, in the area of capacity-constrained marketable risk, ECAs are often the client's preferred choice. The reverse of the subsidiarity principle often applies in practice, with clients only approaching the private insurers if ECA cover is not available. But that is the client's choice, and the market should be run, within reason, for the benefit of the clients, not for the benefit of the private insurers.

Overall, the private insurers have little grounds for complaint. In the fully-marketable area of the business where they have enough capacity to cover all economically-justifiable risks ('marketable' risk in EC terminology) there is no ECA competition, at least in the core European markets. At the other end of the scale, truly non-marketable risks remain, including the very long-term tenor business, mega-project finance business, and SME business, and the ECAs are needed here in their traditional role of writing risks for which in effect there is no market.

And in the large middle area, the area identified here as capacity-constrained marketable risk, the ECAs are needed as the private market lacks the aggregate capacity to cover all economically-justifiable risks. In this area, the private insurers compete with the ECAs under a policy of co-existence, but with the ECAs operating on a commercial basis, driven by political necessity and underpinned by the OECD Arrangement with its credit market-based minimum premium rates.

Crucially, a policy of coexistence works for clients. It provides them with choice. In the area of capacity-constrained marketable risk the ECAs are acting as a haven of consistency, stability and capacity around which the private market can develop. The ECAs still play a vital role in supporting international trade and development and are needed for a number of reasons: for consistency, as the clients are used to the ECA offering and are still adjusting to the private market alternatives; for stability, as the private market, despite its growth during the financial crisis, will still ebb and flow with market conditions; and for capacity, because when you look at the numbers, in the aggregate, the private insurers can supply only a small portion of the capacity needed for marketable risks in the more heavily exposed countries (something that is unlikely to change in the foreseeable future).

Against this ECA backdrop, clients will increasingly have alternative options available from the private market. It is difficult to see anything wrong with this vision of co-existence, of choice between ECA and private market cover in the mixed market for capacity-constrained marketable risks.

But co-existence means that the ECAs and the private insurers are in competition. This does not mean competition in the old ECA sense of a race to the bottom through subsidy; rather it simply means that business is being allocated between rival government and private suppliers through the market mechanism of client choice. In competition terms it means that the ECAs and the private insurers are operating at the same level in the market. For those who have not yet come to terms with ECAs and the private insurers engaging in this competitive co-existence, we have a simple message: get used to it, get over it and get on with it. The ECAs now operate within and not outside the market.

RISK SHARING BETWEEN THE ECAS AND THE PRIVATE INSURERS

However, because ECAs compete with private insurers, they need to follow the subscription market practices when they share risks with those insurers. This means the client, not the ECA, organising the risk sharing, and the ECA following the golden rule of the subscription market by speaking only to the client; the ECA should have no discussion with competing private insurers.

when the ECAs in Europe say they do not compete with the private market, they really mean they do not compete with the private market for 'marketable' risk as defined by the EC.

Subscription market rules should apply even where the risk sharing being investigated may involve an ECA being reinsured by private insurers operating at the same level in the market, an increasingly attractive option. Clearly the ECA will need to have had facilitating discussions with the market to approve a panel of eligible reinsurers and to establish in principle the format of any reinsurance.

However, when it comes to the negotiation of the individual transaction, the client should not allow the ECA to have any discussions with the chosen reinsurers until after the negotiations are over. The client will have, or should have, its own direct relationship with the private insurers, who in this case are also potential reinsurers. These private insurers are able to quote in competition with the ECA for the case in question and may well be insuring other transactions for the client where the ECA is not able to provide terms or was not competitive. The ECA is perfectly capable of indicating to the client whether it needs, or is willing, to accept reinsurance and which private insurers are acceptable. The private insurers likewise can advise the client of the terms on which they are willing to reinsure the ECA, as well as the terms on which they are willing to write the business on a direct basis.

By following subscription-market practice the client keeps all options open and can achieve the best outcome for its own benefit. If the client allows rival insurers to confer, this will likely limit the choice to the best option for the insurers.

For if an ECA breaks the golden rule of

the subscription market and confers with competing private insurers, they may distort the market by restricting competition. Even the knowledge that the ECA needs reinsurance is competitively sensitive; simply by communicating that to a private insurer the ECA may cause that insurer not to quote in competition to the ECA, thereby restricting the client's choice. Likewise, only the client, not the ECA, can ask the private insurer if it is willing to put up terms in competition to the ECA. Asked by the client, that sounds like an invitation to compete with the ECA; if asked by the ECA, that would sound like an invitation for the private insurer not to compete with the ECA.

Of course, we are not suggesting ECAs are always in competition with private insurers. Private insurers are not operating at the same level of the market with an ECA where they are not licensed to write business direct to the ECA's clients; private insurers are not in competition with ECAs for the business that is already on the ECA's books; some ECAs lend and wish to insure their loan book; and of course if an ECA seeks facultative reinsurance from a specialist reinsurer who as a matter of policy does not write business direct to clients, they are not reinsuring with a competitor. In all these circumstances it is perfectly acceptable for an ECA to negotiate reinsurance directly with the market, or appoint a broker to do so on its behalf.

STAY IN THE MARKET, PLAY BY THE RULES

But the danger arises whenever an ECA contemplates being reinsured by a private insurer that is in a position to quote in competition with the ECA for all of, or even a part of, the risk for which the client is seeking cover. Here, if the ECA flouts the subscription market rules, it is flouting the most basic rules of any market, namely that the client allocates business between rival suppliers, and rival suppliers do not confer with each other when responding to a client's enquiry.

If an ECA flouts these principles, it will not necessarily follow that the outcome is anti-competitive. However, if we allow the market to adopt unhealthy practices, sooner or later disease will follow. Sooner or later, clients will begin to suspect that an ECA, in defying normal market procedures, is limiting the clients' options; that the ECA is engaging in anti-competitive behaviour; that it is treating the private insurers like its suppliers (rather than the clients' suppliers); that the ECA is 'cooperating' with its competitors; that the ECA is seeking to prolong its de facto monopoly of so called 'non-marketable' risk in its local market; and that the ECA is attempting to buy off competition from the private insurers by offering them reinsurance. And sooner or later, such suspicions will prove correct.

In conclusion, the paradox for ECAs is that on the one hand they can distort the market by competing with rival ECAs; and on the other they can distort the market by failing to compete with private insurers for capacity-constrained marketable risks.

It will take reflection, debate and leadership for the ECAs to adjust to this paradox. It will also require some courage, as the ECAs need to re-educate their political masters.

In the EU, the authorities have done a good job in identifying the area of the export credit insurance market that is fully-marketable and where the EU ECAs should not compete. But in dismissing all other risks as 'non-marketable' they have failed to understand the area of capacity-constrained marketable risks; failed to appreciate that in addition to writing risks that can rightly be described as non-marketable, the ECAs have a new, subtly different role of providing capacity for risks that are marketable. They have not come to terms with the fact that in this area of capacity-constrained marketable risk, clients do have, and should have, a choice between ECA and private-market cover; that the ECAs and the private market do, and should, compete. ■

Clients do have, and should have, a choice between ECA and private-market cover; that the ECAs and the private market do, and should, compete.

TRADE & SUPPLY CHAIN

A sea change in trade finance

At a time when digitisation, regulation and new liquidity are on the rise, Hesham Zakai explores how these factors are changing the trade-finance landscape.

FROM digitisation and disruptive innovation to regulation and reprioritisation, the world of trade finance and treasury management is changing rapidly and, in most instances, irreversibly.

The need for organisations to adapt their strategies to a fast-transforming environment has seldom been stronger, but at the same time embarking on a sustainable path forward brings its own set of challenges.

So, what exactly are the key evolutions driving change in trade finance and how are they taking shape?

HARNESSING THE POWER OF A DIGITAL ECOSYSTEM

There are a number of digitisation markers in the trade landscape, including the growth of open-account trading, initiatives such as the Bank Payment Obligation and electronic presentation (ePresentation) tools. These all point to the evolution of a digital ecosystem that can facilitate trade quicker, more efficiently and, in most instances, with greater security.

A digital ecosystem leverages the fact that global marketplaces are more connected to each other than ever – a trend which Ian Kerr, chief executive officer of cloud-based platform provider Bolero, sees increasing:

"As a connectivity platform, we can see that one of the absolute givens of the world is that it is going to be increasingly connected; the world will become a network of networks. This means there is a need to connect more counterparties electronically, and a need for total straight-through processing.

"If you look at what is happening in the world, opportunities are opening up to bring the physical movement of goods together with financial data flows – albeit we are still at a reasonably early period in the process. This process relies on a digital ecosystem, which we are constantly harnessing."

Signs of this process taking shape can be seen in the increasing popularity of electronic Bills of Lading (eBL), for example. Moreover, for facilitators such as Bolero, they are experiencing a broadening of their customer base as organisations that initially participated in their ePresentation system as importers are now working with them as exporters too, thereby spreading the digitisation trend in domino-fashion.

"That has certainly boosted the number of clients we are working with as exporters. We are also finding that we are being introduced by banks to their customers, which allows them to come on board to our platform electronically too," adds Kerr, who additionally identifies India and South America as regions that are now moving fast in this domain.

Non-bank players with a strong focus on the latest technologies and user-friendly interfaces have found a space in the digitisation realm where they can become valued parts of the financial supply chain, making life easier for corporates in the process. Their involvement has also acted as a fillip for banks to digitise their services more speedily, enhancing the overall take-up of digital solutions.

Prompted though it may be, this has been a positive development for banks that has given them a better oversight over their supply chains and, critically, improved their resistance to potential fraud and foul-play.

"By going digital, banks have increased visibility over the end-to-end physical and financial supply chain. This would make it

Deutsche Bank
Global Transaction Banking

Supporting your supply chain, from link-to-link

At all stages of international trade, our offering goes beyond financing and value-added services.

With a fully integrated global network and state-of-the-art transaction processing technology, Deutsche Bank can support your business wherever it takes you.

Visit gtb.db.com

Passion to Perform

This advertisement is for information purposes only and is designed to serve as a general overview regarding the services of Deutsche Bank AG and any of its branches and affiliates. The general description in this advertisement relates to services offered by Deutsche Bank AG Global Transaction Banking and any of its branches and affiliates to customers as of May 2015, which may be subject to change in the future. This advertisement and the general description of the services are in their nature only illustrative, do neither explicitly nor implicitly make an offer and therefore do not contain or cannot result in any contractual or non-contractual obligation or liability of Deutsche Bank AG or any of its branches or affiliates. Deutsche Bank AG is authorised under German Banking Law (competent authority: German Banking Supervision Authority (BaFin)) and, in the United Kingdom, by the Prudential Regulation Authority. It is subject to supervision by the European Central Bank and by BaFin, Germany's Federal Financial Supervisory Authority, and is subject to limited regulation in the United Kingdom by the Prudential Regulation Authority and Financial Conduct Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority and regulation by the Financial Conduct Authority are available on request. Copyright © May 2015 Deutsche Bank AG. All rights reserved.

possible to intermediate in the chain at a much earlier stage than what happens today, giving banks a greater role in the process," states Hari Janakiraman, head of global core trade products at ANZ.

SUPPLY CHAIN FINANCE CONTINUES TO EVOLVE

In the supply chain finance space, the early pioneers are already reaping the rewards of investment seeds sown years ago. Even those new on the block that have been following the progress of the sector are looking at ways in which they can benefit from the ongoing evolution of the solution.

The digitisation aspect is important because it can, for example, accelerate the process of onboarding suppliers – a stage within supply chain finance that is critical to its success. Similarly, the dynamic-discounting solutions on offer afford participants a greater degree of flexibility in managing their working capital.

These more incremental developments reflect how the broad category of supply chain finance, while sometimes seen as a single innovation, is perhaps more accurately described as a series of innovations – a process still in flux.

Eugenio Cavenaghi, Santander's head of trade, export & supply chain finance for Germany, Austria, Switzerland, concurs: "Supply chain finance is an evolving proposition that keeps adding innovative edges to its core idea, which is all about using the power of trade relationships among corporates to facilitate financing."

Cavenaghi adds: "What we have recently seen, especially in a mature market like Germany, is a push to become even more lean and efficient in the deployment of the product in the lowest corporate segments, where a very high number of very small enterprises supply to the buyers leading large programmes. The large vendors have now long been onboarded and facilities need to reach out to SMEs in order to increase their utilisation of the product."

One of the ways in which Santander has endeavoured to do this is through simplifying its KYC requirements for buyers and suppliers, ensuring they still collect all the data they need but in a way that is more manageable for the corporates. Finding the right balance between streamlining compliance requirements without compromising them at all is a key exercise all banks and many platform providers will have to contend with in the regulatory landscape of today and tomorrow.

Another evolution in this space has been what some are terming 'Supply Chain Finance 2.0'. Here, the solution empowers suppliers and fuels not only their working capital but also their wider trade ambitions, as articulated by a senior analyst at Aite Group, Enrico Camerinelli:

"SCF 2.0 shifts the focus of the security of the transaction from the approved invoice to the trade relationship between the supplier and its client buyer. Hence, a positive and vital trade relationship (ie goods delivered on time, in quality, with no disputes) is the foundation for SCF 2.0.

"The supplier's operational excellence becomes the new paradigm of a 'sustainable' SCF and encourages the company to develop further attention and care to its trade operations," says Camerinelli.

This shifting relationship is a sentiment echoed by supply chain finance vendors, such as Taulia, whose European marketing director Matthew Stammers adds: "We offer dynamic payment terms, which is a change from the old-fashioned static payment terms and a move towards a modern, dynamic trading relationship that has value for both the buyer and supplier."

TAKING THE ALTERNATIVE ROUTE

It is not just how cash is managed and optimised that is influencing the trade-finance landscape, but where that cash is coming from in the first place. Increasingly, new sources of liquidity are entering the market, the most recent wave prompted by a couple of key reasons: the regulatory environment and the low global interest rates.

"Banks are required to hold more capital

These all point to the evolution of a digital ecosystem that can facilitate trade quicker, more efficiently and with greater security.

against various trade-finance assets (and all types of financial assets), thereby lowering a bank's effective return on capital," says Adrian Katz, chief executive officer at trade-securitisation specialists Finacity. "At the same time, institutional fixed-income investors (such as pension funds and insurance companies) are experiencing extraordinarily low interest rates and tight spreads, encouraging them to broaden their potential universe of eligible investments."

In their bid to broaden their investments, investors are enticed by trade-finance assets because they represent a good risk-reward asset class, given they are short duration and have relatively low default rates. This is, however, accompanied by a complexity that requires such assets to be overlaid with a structure that has broad investor accessibility, adds Katz.

"New sources of liquidity are being achieved through applying structured-finance techniques, with the primary example that of securitisation. Potential investors in securitisations do not need to be trade-finance experts. In a sense, the necessary trade-finance expertise is encapsulated in the structural requirements of securitisations (sufficient obligor diversification, dynamic reserves for loss and dilution, etc)," says Katz.

"Potential investors therefore can rely on high explicit or implicit credit ratings and third-party operational constituents (e.g. Finacity) to manage the ongoing dynamics and provide detailed and simplified reporting," he adds.

The involvement of investors broadens the pool of liquidity available to corporates, and this increase in working-capital options could boost companies through more access to cost-efficient capital. The potential range of beneficiaries of this development has broadened in recent years, according to Katz:

"A very important breakthrough over the past few years (that I believe Finacity can take some credit for) is a widening range of corporate-credit profiles that can be supported as securitisation issuers. Weaker credit companies now have access that they heretofore did not. If a non-investment grade company can have access to financing via an investment-grade trade-finance securitisation, such a company would be motivated to implement.

"Further motivating corporates is that, depending on structure, off-balance sheet financing can be achieved, thereby offering improved capital ratios and easier covenant compliance, in contrast to more traditional debt financing," adds Katz.

As advances in this space continue to be made by institutional investors, the lending paradigm, more broadly, is concurrently welcoming more new players. That includes the rising trend of peer-to-peer lending, which will become increasingly crucial in years to come.

FROM GENERALISATION TO SPECIALISATION

In the midst of these digital, capital and regulatory changes, banks have to be more strategic about where they position themselves. A senior trade finance banker tells *TXF*: "Banks need to understand that the era of generalisation is long over and today it is all about specialisation".

"We have trade banks that are doing everything," he says, "they have 100 products that fulfil just three key functions: risk mitigation, financing/working capital, and document handling."

At the same time, boutique firms that specialise in just one product or solution are growing in number, and they are able to offer smart solutions, focused technology tools, niche expertise and sharp pricing. This is a challenge that banks will have to respond to and, judging by some of the changes seen in the market in terms of certain banks retrenching and refocusing on key markets, this is a process that is very much underway.

"There is still a greater need going forward for really specialised banks that focus on fewer, specific services but do them exceptionally well," says a senior advisor at a European trade-finance consultancy. "Regulation and compliance requirements are forcing them to reconsider their business strategies, alongside increasing competition from alternative-finance providers and payment facilitators."

If regulation is a sign of why banks have to change, then it is also a sign of their enduring relevance and role. While trimmed down, their correspondent banking networks – for example – remain a key cog in the global trade-finance machine. Similarly, their expertise in managing risk and providing credit is more necessary than ever.

The challenge is the same for bank and non-bank participants: innovate and acclimatise to the new environment or drown in the wave of change currently sweeping through trade. ■

Leveraging the power of fintech

Fintech's potential to reengineer the payments space is huge, and with investment in the sector soaring, fintech's reach is only expected to grow. Dominic Broom, Head of Treasury Services EMEA, BNY Mellon discusses how fintech is shaping payments, its increasing role in facilitating trade, and how bank-fintech collaboration is key to successfully propelling payments into the digital era.

GLOBAL trade corridors continue to shift, with the emerging markets playing an increasingly important role in dictating the movement of goods around the world. Concurrent with a recalibration of who is driving trade, how consumers and businesses are transacting and paying for the goods is also undergoing a radical transformation, as technology capabilities advance at a rate never seen before. Indeed, the era of fintech is upon us and the transactional experience is becoming a whole new ball game.

What's more, the buzz around fintech is becoming stronger, as a realisation and understanding of its potential to significantly enhance the way in which we transact, takes hold. Global investment into fintech innovation soared in 2014, jumping up to $12.04 billion from just $4.02 billion in 2013, with spending in Q4 of 2014 alone eclipsing investment seen in the whole of 2012. Certainly, we can expect to see a great deal more from fintech in the future, and the advancements seen to date – including increased efficiency and transparency – are likely to be just a scratch on the surface.

FINTECH'S GROWING REACH

The consumer and retail sector has witnessed the most significant change so far, and enhancements on the retail side inevitably cultivate demand for an equally optimised payments experience within the corporate sphere. Banks operating in the corporate sector must therefore be mindful of developments in the retail space, as the way in which retail payments evolve will play a huge role in driving the future direction of corporate payments.

Mobile functionality, for instance, is a key area impacting retail payments. With mobile phone penetration reaching almost inconceivable levels (the number in use surpassed the number of humans on the planet in 2014), digital services are becoming widely available to consumers that previously couldn't be reached, improving convenience and accessibility.

Dominic Broom, Head of Treasury Services EMEA, BNY Mellon

Building on this, the establishment of mobile payments is radically altering how and where payments can be made and, in the case of the emerging markets' unbanked populations, granting access to previously unattainable financial services. M-Pesa is a prime example: a mobile phone-based money transfer and micro-financing service, and a pioneer in the field of mobile payments in developing economies. Initially launched in Kenya and Tanzania, its huge success has seen it subsequently expand to Afghanistan, South Africa, India and Eastern Europe.

The corporate space, however, remains largely untouched by mobile payments, with concerns regarding security persisting. Yet enhancing risk mitigation (including the use of biometric data and tokenisation) is currently a key focus for fintech innovators. Furthermore, as the proportion of the workforce that is 'digitally native' expands, demand for mobile-friendly corporate payments is only expected to rise. Banks should therefore consider developing solutions that can cater to growing multi-device needs – including smartphones, tablets and the emerging field of wearable devices – to demonstrate their knowledge and expertise in the evolving payments space, and their commitment to providing client-centric offerings.

Elsewhere, the development of real-time payment systems in the retail sphere, which not only improve speed and efficiency but

provide 24/7/365 e-commerce capabilities, has been a huge step forward in facilitating modern payment demands. For banks in the corporate space however (which currently rely on the comparatively slower batched-processing method), a move to real-time poses considerable technological challenges.

With other banking functions to consider, including reporting databases, anti-money laundering (AML) and customer accounts payable/receivable, implementing such a radical change to global banking infrastructure would be extremely complex. Yet with clients increasingly demanding such standards of speed and efficiency, and with non-bank providers such as PayPal already offering real-time payments to consumers, real-time is a capability that banks will no doubt need to factor in to their long-term strategies.

FINTECH AND THE TRADING ARENA: A STRENGTHENING RELATIONSHIP

The huge steps forward in the transactions space – all facilitated by technology innovation – are increasingly evident. Admittedly, the corporate sector has so far seen a slower adoption of new technology than the retail sector, and the trade arena in particular – which is renowned for its more traditional approach and values – has been slow to adopt new innovations, in part due to a reluctance to interfere with ingrained processes. This, in a sense, is somewhat of a dichotomy, as trade and its various branches – including letters of credit (LCs), guarantees, documentary collections, supply chain finance (SCF) and open account transactions – are an area that could most benefit from technology innovation.

Historically, innovators have faced an uphill struggle to implement new solutions in the trade industry, with market reaction to proposed change typically subdued. Take Bolero, for instance a web-based, multi-bank trade finance solution that enables paperless trading through the automation of the end-to-end lifecycle of documentary credits, standby LCs, guarantees, bonds and other traditional trade instruments for both importers and exporters. Now widely-used, the initiative was at first met with resistance. Despite its obvious advantages (including enhanced transaction visibility, speed, accuracy and security), a limited awareness by some market participants, a lack of common legal framework, multiple documents standards, different regulations in different jurisdictions, concerns regarding the diversity and size of SME exporters worldwide – combined with a natural reluctance to change – meant it was years before Bolero was broadly adopted and accepted as a viable means of trade processing.

Yet with technology innovation occurring at such a rapid pace, the industry is increasingly becoming used to change and is subsequently far more responsive and inclined than in the recent past to be receptive to innovative solutions. Indeed, real-time access to data, enhanced visibility and traceability of documents and flows are now considered common practice within the trade sector, and the migration from paper to paperless and from manual to automated is well underway. Indeed, digitalisation is firmly on the trading industry's agenda, with a growing demand for consolidation through streamlined processes, increased efficiency and reduced working capital costs.

ENHANCING TRADE THROUGH TECHNOLOGY

The primary area in which this is being pursued is that of document examination, with an increasing number of financial institutions across multiple geographies pursuing strategic initiatives that provide dematerialisation of documents, speed and quality of back office functions, and cooperation with outsourcers and service providers.

The next key development in this respect is Optical Character Recognition (OCR): the electronic conversion of images of typed, handwritten or printed text, into machine-encoded text. This is likely to play a pivotal role in the advancement of document processing. Indeed, while document scanning is a widely-used form of data entry for printed paper data records, OCR enables scanned text to become electronically readable, allowing relevant information to be extracted and matched to a database.

OCR has the potential to substantially reduce manual involvement – and, in turn, the risk of human error – in trade processing. Such capabilities, while technically already available, are not yet reliable enough to be widely adopted and further developments are required. In addition, legal requirements and compliance complexities are currently presenting challenges to the initiative, but it is likely to be only a matter of time before these are overcome and OCR becomes a mainstream method within trade processing.

Elsewhere, an area of fintech innovation identified as being of particular benefit to the banking sector as a whole is that of 'big data'. Working in industry with vast libraries of information within their systems, banks can now have technology capabilities that allow huge, complex data sets to be analysed

and interpreted effectively and efficiently. This enables previously untapped trends – including details of trading patterns and payment performance – to be identified and used to advantage.

Such a sophisticated data management technique, and the valuable insights gleaned, can be used to enhance both the physical and the financial supply chain. For example, SCF is currently based on the analysis of management information documents, and big data has the potential to significantly improve transparency and efficiency, speeding up the funding decision process. The technology can help banks optimise their internal processes and gain a greater insight and understanding of client businesses, allowing them to improve their client service by offering tailored, client-centric solutions, based on individual client requirements.

INVESTING IN FINTECH

Digital enhancements are emerging at a rapid rate, and fintech is playing a significant role in shaping the direction of global payments and trade processing. In addition, fintech developments are enabling a host of new non-bank players (including technology providers and large social media companies) to enter the market, offering client-focused solutions that appeal to the modern digitised lifestyle. As a result, there has been an unbundling of financial services in the retail space, with technology-driven companies making significant inroads in areas such as purchasing (eg Apple Pay, PayPal), fund transfers (eg TransferWise) and the tracking of spending (eg MoneyDashboard).

Banks are aware that it is only a matter of time before fintech innovation begins to really make an impact on the corporate sphere, and in recognition of this – and the extensive value that fintech can bring to the transaction world – banks are embracing the power of fintech, adopting strategies that position them at the epicentre of this dynamic sector. The main tactics being explored are venture capital-style investments, and accelerator and sponsorship programmes, with relationships between traditional players and fintech pioneers ranging from sponsorship to owner-based models.

There is no doubt that such partnerships are advantageous to both parties. Banks have unrivalled experience and knowledge of the transaction landscape, high standards of regulation, which help to significantly improve risk mitigation, and extensive pools of clients – all of which are invaluable components for fintech companies whose expertise primarily lies in the intricacies of technology. By working together, banks not only remain at the centre of fintech innovation and are better-positioned for adapting to payment developments, they are better able to identify and develop valid concepts into effective and tangible solutions, helping to fuel the progression and growth of corporate transactions.

One fintech innovation that has been identified as holding particular potential, is the technology that lies behind Bitcoin transactions, known as the blockchain. A distributed, cryptographic ledger detailing each step of every Bitcoin transaction made, the blockchain is accessible by any computer within the Bitcoin network. Information is transparent and ownership can be tracked, yet importantly, no data can be deleted. It is believed that the properties of the blockchain could be used to significantly enhance corporate transactions (including substantial improvements to speed, efficiency and security), and there is a growing amount of activity in the blockchain arena, with banks including Barclays, BNY Mellon and Goldman Sachs all confirming they are pursuing initiatives in this field.

One particular area being explored is the incorporation of smart contracts (computer programmes that can automatically execute the terms of a contract) into or on top of digital currencies, with a host of information, including the ownership of goods, for example, stored on the blockchain. Such innovation would allow independent agents to carry out contracts without the need for intermediaries – and even without the requirement for a central clearing house.

Fintech certainly has the ability to transform the global transaction space. By increasingly engaging with and contributing to the fintech world, banks can maintain their dominance as payment and trade facilitators, and demonstrate their commitment to enhancing the entire transaction experience, by propelling payments and trade processing into the digital era. ■

The views expressed herein are those of the author only and may not reflect the views of BNY Mellon. This does not constitute treasury services advice, or any other business or legal advice, and it should not be relied upon as such.

BNY MELLON

Platform power: Eeny, meeny, miny, moe – with which provider shall I go?

TXF's Hesham Zakai ventures into the brave – but not so new – world of supply chain finance vendors and their respective offerings.

THE market for supply chain finance solutions is a broad and burgeoning one, with an abundance of established and up-and-coming players jostling for position. This competitiveness creates a healthy choice for corporates looking to adopt a supply chain finance programme. But with great choice comes great responsibility. (A bit like picking first from a Christmas chocolate selection, but with the added pressure of the choice you make resulting in a tangible impact on your entire company's working-capital position).

In a sign of the oft-confusing nature of the landscape, there are also about as many supply chain finance definitions as there are providers. No wonder the International Chamber of Commerce (ICC) launched a multi-association major undertaking with the Herculean task of harmonising the sector's terminology – an undertaking it is still finalising nearly 18 months later.

To simplify matters – or rather make them manageable – this article takes as its starting point a corporate concerned with liquidity and the robustness of its supply chain, looking for a solution that would allow it to effectively help finance its suppliers through some form of early payment of invoices. This certainly narrows the parameters, but corporates are still confronted with a series of choices on the road to adopting such a solution.

The first fork in the road is deciding whether to opt for a bank proprietary or bank agnostic/multi-bank model. Both options have their benefits and drawbacks and a corporate will usually opt for one or the other for a variety of reasons, including whether they consider i) not being dependent on one single institution (and therefore the ebb and flow of their liquidity) or ii) deepening their relationship with their existing house bank, to be the bigger priority for them.

For those that go with a bank proprietary solution, they will often do so with their main relationship bank. The guide that follows, however, is aimed at those who instead venture into the brave but now not-so-new world of multi-bank supply chain finance providers.

It is accompanied by a strong caveat that neither the list of features nor the service providers are comprehensive; such an undertaking would be more Herculean than that of the aforementioned ICC's.

Instead, it provides information about a set of providers that would be useful to corporates assessing prospective supplier-financing programmes. These include dynamic-discounting processes, information on how buyers can self-fund their programmes and on whom the burden of supplier onboarding and compliance falls.

Feature	CRX Markets	Kyriba	Orbian
Geographical scope	Worldwide	Worldwide	Worldwide
Dynamic discounting	Yes - with discount fees determined either by the buyer or the supplier at a marginal finacing cost	Yes, a flexible model responsive to the payment cycle of client	Yes, the supplier can elect to sell all approved receivables automatically, or on a manual, ongoing basis
Supplier onboarding	Onboarding is supported by electronic workflow on portal. Either CRX or the buyer liases with the suppliers.	Provide the technology and send clients the user-guide. Buyer manages outreach to suppliers	Dedicated supplier on-boarding team handles all aspects of supplier enrolment, including education and onboarding phase - working hand-in-hand with the buyer's team
Languages	English, German, French and Spanish primarily	11 languages, including English, Japanese and Mandarin	Most European languages, plus Mandarin, Cantonese, Japanese and Malay. Additional languages available on request
Local currency financing	All currencies	Multi-currency	All tradeable currencies with observable Libor (or equivalent) interest rate curve
Self-funding	Yes. Either by early payment via Dynamic Discounting or by purchasing securitised notes	Yes, and often used by buyers in conjunction with dynamic discounting	Yes, through purchasing notes issued by Orbian after the purchase of the receivables
Funding sources	Yes. Dynamic Discounting, multi-bank and securitised notes. Funding can occur via a single source our multiple sources	A multi-bank platform, usually leveraging the corporate's relationship banks	All funding done via issuance of notes to bank and non-bank investors including buyer's own liquidity
Messaging	Messages are automatically broadcated to suppliers (e.g. rate changes) and to investors (e.g. auction announcements)	No	Automated messaging to buyers and suppliers of all activity on account. Includes historic activity and alerts of pending activity
Financing rates	Two fee models: 1. Fixed financing rates agreed either individually per supplier or by supplier cluster. 2. Based on an auction process	Use market rates drawn from multiple sources. Rates set either on individual supplier level or for a group of suppliers, e.g. based on location or industry	Set by agreement with buyer and supplier. They can be straightforwardly tiered for different suppliers
Compliance checks	Yes. It provides a full-scale KYC support to purchasers, where required	Carried out by banks	Yes. All compliance, regulatory and reporting requirements for each jurisdiction are fully supported and complied with
Analytics / Reporting	Comprehensive reports are available either online on the portal and via xml or xls	Detailed reporting, tailored to buyers' requirements. Reports generated available online and for download	Full suite of historic, and forward-looking tools for reporting and economic analysis

PrimeRevenue	Propell	Taulia	Tower Trade
Worldwide	Multi-bank supply chain finance provider to buyers in Africa - and also service suppliers globally	Worldwide	Buyers based primarily in African sub-continent, Europe and North America. Suppliers are spread globally
Yes, managed with minimal administration through SciSupplier platform	Yes, and suppliers can either elect to trade manually (full optionality) or on an auto-traded basis	Yes, with suppliers either choosing manually from available payment dates or choosing to auto-accelerate all of their invoices	Not offered
Facilitated through SciEnable platform, a link to which is sent by buyers to suppliers. Includes video tutorials, messages from CFOs and interactive calculator	Facilitated through an online, cloud-based solution	Vary depending on supplier sizes, from largest suppliers benefitting from face-to-face approach to automated email approach for smaller players.	This is carried out by the buyer's procurement team
English, Italian, Spanish, French, Dutch, German and Chinese	English, French, Spanish, German and Dutch	All European languages and most widely used other languages, including Chinese and Japanese	All European languages
20, including GBP, USD, EUR and RMB	28, including USD, EUR, GBP, JPY, CHF, MXN and CNY	All currencies	USD, GBP, EUR, ZAR, CHF
Yes, through a process in which the buyer is included as an investor	Yes	Yes, with a flexible model that allows them to self-fund when they have excess liquidity and allow the market to fund when they have alternative plans for that liquidity	Yes
52 funding sources, primarily major banks, but also capital markets investors and alternative financiers	Funding from multiple funders, local banks, trusts, capital markets and on-balance sheet funding from buyers	Partnered exclusively with Greensill Capital, who have an investment vehicle that allows multiple funding sources to invest in that vehicle - from buyer's house banks to hedge funds	Structured funds, retail and non-retail
Directly facilitated on platform	Direct messaging in SCiEnable, our supplier on-boarding and messaging site	Yes, integrated into the Taulia Supplier Portal. There are also message boards for individual suppliers or globally	Yes, carried out through an internal electronic platform
Different financing rates by supplier, based on analysis of whole spend	Multiple pricing profiles can be setup for different buyers, suppliers and currency combinations. Financing rate for each pricing profile can either be Libor linked (yield curve), linked to fixed reference rate or fixed (flat)	Set in conjunction with the buyer, using master-data to put suppliers in different segments and give different interest rates to each segment based on range of factors, including credit worthiness, ratings and own information we have about suppliers	Charges levied vary dependent on the buyer
Collect and check information during registration - whole package for each supplier then given to the funder for own checking and approval	Yes. KYC, AML and regional compliance checks on behalf of all funders	Solution covers complaince required for the end-user	Carried out on buyers only. The checks on the suppliers are the duty of the buyer and/or the relationship bank
Issue reports that track and measure the success of a programme. Provide granular analysis	In-depth spend analysis, term benchmarking, industry benchmarking and supplier financial analysis	Taulia Analytics allows buyers to see suppliers who are on a programme, days they are accelerating payments by, value of discounts they are achieving and so on	An analytics and reporting tool

In addition to the features detailed in the table, Enrico Camerinelli, senior analyst at Aite Group, adds that corporates should also consider an additional two factors: "The service provider's capability in assisting the corporates with dealing with accounting and tax treatments; and the flexibility of their technology platform to integrate with bank back-office systems and corporate ERPs (Enterprise Resource Planning)."

The table indicates that while there are a number of common factors in the offering of service providers, there are also key differentiators – particularly in the area of funding sources and financing rates.

Orbian was one of the earliest innovators in the supply chain finance space and the size and scope of some its programmes can draw comparisons with some of the major bank players. Where it is increasingly appealing to a broad customer base is in the ease of use of its capital-markets model, whereby it raises funds through the issuance of notes to accredited investors.

Despite its straightforward link to bank and capital-market investors, the option is also available for buyers to purchase the notes themselves and, therefore, effectively self-fund their own supply chain.

This flexibility is also a central tenet of Taulia's offering, which aims to respond to different buyer strategies.

"The buyer's strategy could be working capital optimisation, in which case they would primarily go for a third-party financing option," says Matthew Stammers, Taulia's European marketing director.

"Many large corporates are now primarily self-funding, but through a vehicle that allows third-parties to come in as well, affording them more flexibility," he adds.

Self-funding can be a positive solution for corporates when they have excess liquidity. However, when that is not the case, or when they would prefer to distribute that excess liquidity in a different business segment, such as an M&A, the ability to easily put the funding burden back onto the market is a welcome one – for the buyers and suppliers.

"It's great for buyers because they can be confident that their suppliers will not experience an on-off shock situation," says Stammers.

GOING, GOING, GONE…

While Taulia's financing rates are determined by crunching a huge amount of data, including leveraging its 600,000-strong supplier database, CRX Markets takes a different approach.

CRX Markets has an auction model, which sits alongside a more standard financing model. The auction process works through securities being offered to investors in a pre-announced auction that runs for five minutes. Investors submit their bids for each security and are able to see all competing investor bids (anonymously) in real-time. Needless to say, the highest bidder wins.

The corporate client can influence the auction's parametres in three key ways: 1) Excluding certain investors from being able to bid; 2) Setting a pre-defined price range for the security; and 3) Purchasing the invoices themselves.

The ad hoc nature of an auction can remove an element of certainty and consistency from the process, but CRX Markets argues that it leads to better financing rates for the programme, based on a price that fully reflects the supply-demand dynamics of the market.

"Today's supply chain finance offerings are still dominated by banks or platforms working with banks on fixed-price arrangements. Hence, the respective banks determine pricing in most supply chain finance programmes. Multiple credit

The innovative nature of this market certainly means it is a constantly transforming one in which no one player can sit on their laurels, feeling secure of their position without keeping up with the changes – implementing key changes quickly is necessary to stay ahead.

risk, liquidity and regulatory-capital considerations are factored into the pricing of banks and then matched against the general client relationship with the corporate," explains Urs Strewe, chief operating officer of CRX Markets.

"The CRX pricing approach invites investors to a fair and transparent, yet competitive, auction with suppliers benefiting from the lowest available financing rates," adds Strewe.

ALL ABOARD

The success of a supply chain finance programme often comes down not to who is financing it or how the rate is set, but to the extent to which the service provider is able to onboard suppliers onto a buyer's programme.

"Too many people neglect the onboarding process, but it is absolutely critical," says Oliver Belin, vice-president of receivables finance at PrimeRevenue.

This is an area in which the leading non-bank players have been able to steal a march on their banking counterparts, leveraging their technology and resource capabilities in this area.

Says Belin: "Supply chain finance has to be sold three times: firstly to the buyer, then the supplier, then the funder who has to come and finance the solution.

"Most banks neglect the second point – because it is a lot of effort and legwork, so what you tend to see in most bank-led programmes is that there are 20, 30, maybe 50 suppliers in each programme focusing on the top suppliers who are willing to join the programme."

In a bid to penetrate deeper into a buyer's supplier base, PrimeRevenue introduced SciEnable with the hope of making the onboarding process simpler and faster.

It is a web-based interface where the buyer has a link to a portal in multiple languages that educates the supplier on the programme. It includes a message from the buyer's CFO; gives them a case study; an interactive calculator so they can calculate their pricing; and a video demonstrating the different steps.

"This allows us to reach suppliers with as low as $100,000 in annual revenue. Then the most important part of the onboarding phase is registration. Based on the need of our funders, the registration part is adjusted so that we collect the relevant KYC information needed," says Belin.

This information is then packaged and made available to funders, who review it but are required to also carry out their own due diligence and necessary compliance checks.

LOOKING BACK

Kryiba, which counts 1,000 corporate clients globally, does not currently offer a compliance-checking process, leaving that to the banks involved in its programmes – although they are looking into the possibility of developing such mechanisms.

Its emphasis is presently placed on other aspects of its offering, such as a strong user interface.

"We come into these programmes from the treasury-management space, so we leverage the existing knowledge we have of our client base," says Abhinav Saigal, director of supply chain finance at Kyriba.

Kyriba provides a number of tools to allow corporates to look back on a programme and assess where it is proving successful. This is an essential step in the evolution of supply chain finance, as in order to justify the investments made in it, tangible results on a buyer's accounts and supply chain has to be demonstrated.

Says Saigal: "We offer all of our clients detailed reporting and analytics tailored to their requirements, which can then be transformed into downloadable reports."

COMBINING THE OLD AND THE NEW

Evidently, even within the field of non-bank supply chain finance providers, banks still have an important role to play – and not just in the funding domain. With compliance checks, for example, they are still incredibly well positioned to do this given their comprehensive networks, systems and databases. In an environment where regulation continues to provide a challenge, this is an evermore-valued asset.

The innovative nature of this market certainly means it is a constantly transforming one in which no one player can sit on their laurels, feeling secure of their position without keeping up with the changes – implementing key changes quickly is necessary to stay ahead.

Yet at the same time, the fundamentals of good service provision are timeless – and so even in a quickly moving environment, the importance of reliability, a strong track record and a secure infrastructure cannot be overestimated. ■

Breaking down the barriers of global trade

Oliver Gordon explores the development of mega-regional trade agreements and the potential implications for global trade. He also speaks at length with HSBC's senior trade economist, Doug Lippoldt, about discernible trends in global trade patterns.

GLOBAL trade growth built up expectations with a healthy recovery following the global economic crisis of 2008-2009, but it has since relapsed to a snail-like pace of advancement. Despite their subdued growth rates, advanced economies have sustained flows through their demand for imports. But if HSBC's latest trade report is anything to go by, trade is set for a comeback in the medium to long-term. That is particularly the case for the emerging economies, which, over the past decade, have increasingly usurped their advanced counterparts when it comes to global trade share.

However, trade growth continues to be held back by protectionist national policies and other border-related constraints, which in some cases have even grown in recent years.

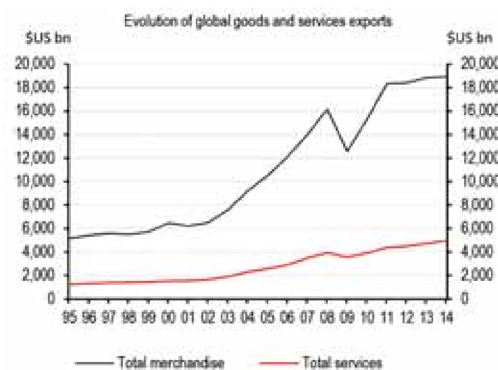
But a solution maybe on its way. Or three, to be exact. These are the triumvirate of mega-regional trade agreements currently under negotiation: the Trans-Pacific Partnership (TPP), the Transatlantic Trade and Investment Partnership (TTiP), and the Regional Comprehensive Economic Partnership (RCEP). Although they have courted controversy because of their potential adjustment costs, they cover a large proportion of the global map and their market-opening reforms offer the promise of substantial economic development. If signed, these plurilateral agreements would complement their multilateral counterparts such as the recently-concluded World Trade Organization Trade Facilitation Agreement, which is awaiting ratification by WTO members, and the pending expansion of the WTO's Information Technology Agreement.

TRADE GROWTH IN THE DOLDRUMS

Trade had seen robust growth since the turn of the millennium until it was stunned by the financial crisis in 2008, resulting in a precipitous slide in flows. Somewhat surprisingly, there was a remarkable recovery in the following two years, with merchandise trade flows approaching $19 trillion. But the pace of that growth has since levelled off and now finds itself in a state of inertia (See Chart 1.1). Both cyclical and structural factors continue to impede its progress.

Doug Lippoldt, senior trade economist at HSBC, tells TXF: "One notable element is that capital-formation investment often leads the demand recovery following a recession and stimulates trade. We have capital

Chart 1.1 While trade values are at an all-time high…



Source: WTO. Latest data April 2015. Note: see the table of contents for further information on the data utilised in this chartbook.

formation in the OECD area now, which is just approaching 2% annually, year-on-year; in the mid-2000s, following the previous recession, it was 4%. So you've got continued weak demand. In addition, Europe accounts for around 30% of imports and the European economy has been weak. And, there's been weak demand in the emerging markets in the first half of 2014 and again in the first half of 2015."

HOPE ON THE HORIZON

However, despite trade growth's current stint in the doldrums, HSBC's Global Research predicts a trade resurgence in the medium to long-term as demand recovers. By 2020, predicts HSBC, trade will have reached a healthy 8% annual expansion. And much of this recovery will be driven by growing emerging-market demand.

Lippoldt, who had previously spent 21 years as senior economist/senior trade policy analyst at the OECD, says: "According to our forecasts, we see around three billion people joining the middle class before the 2050s, mostly in emerging markets. This is due to demographics, and GDP per capita catch up. That's a tremendous source for impetus in trade growth building out there."

And that trend is already very much underway. The mature market economies have been steadily losing market share of imports over the last 10 years (See Chart 2.15). The global economy has been tilting southwards and that is likely to continue, fuelled by demographic change and rising incomes in emerging markets.

"As per capita income climbs above, say, $3,000 a year, consumption patterns change – individuals go from thinking about food and shelter to thinking about how to spend their disposable income beyond that, which leads to a substantial change," says Lippoldt. "With disposable income, people start thinking about the kind of products that the advanced economies may have a competitive advantage in – services for example."

BARRIERS HOLDING BACK FLOWS

So trade is coming back. Great news. But it could be performing so much better. As always, the problem remains that the economic impulse that would help revive trade is being impeded by nationally imposed protectionist barriers. There have been 60 years of trade liberalisation through the General Agreement on Tariffs and Trade (GATT) and the World Trade Organisation (WTO), which has overseen a reduction of tariff barriers in most sectors. And both organisations have made some progress in areas such as services liberalisation, reduction of non-tariff barriers and reduction of subsidies. However, the barriers to trade remain substantial.

"There's non-tariff barriers, such as some types of regulation or product standards, which may be inconsistent across countries and cause problems with clearing at the border. Trade facilitation related barriers are another category: there's basic red tape, the sheer quantity of documents required or the lack of automation in some countries, and the unavailability of advanced determinations for clearance on shipments," says Lippoldt.

"You've got barriers to the services trade: there's a whole class of regulation that deals with the ability to invest or trade in services such as information technology, financial services, communications, etc. Inappropriate regulation can impede development of these activities.

"And in some cases, domestic firms benefit from preferences. In other cases, it could be an inadvertent barrier, which nonetheless may discourage foreign participation. And

One aspect restraining trade is the cyclical factor. But another – very important – aspect is the structural element, with protectionism and trade barriers weighing heavily on trade's recovery and its pace of growth. The former is difficult to combat. But the latter is very much surmountable – and one of way of overcoming it is through international trade agreements.

there's protection of intellectual property rights: weak protection in a market can be a barrier to trade because companies will hesitate to enter such a market.

"And finally, in some markets there are export restrictions that have restrained the ability to trade, say, agricultural products, or rare earths that are used in the electronics industry, and so on."

So one aspect restraining trade is the cyclical factor. But another – very important – aspect is the structural element, with protectionism and trade barriers weighing heavily on trade's recovery and its pace of growth. The former is difficult to combat. But the latter is very much surmountable – and one of way of overcoming it is through international trade agreements.

INTERNATIONAL TRADE AGREEMENTS PROVIDE THE ANTIDOTE

There are three types of trade agreement: multilateral, plurilateral (or regional) and bilateral. Multilateral trade agreements refer to those concluded through bodies such as the WTO, involving commitments from all its members. Currently, the most relevant multilateral agreements have come out of the Uruguay Round, agreed through the GATT between 1986 and 1994 and formed the basis of the WTO. "The problem is," says Lippoldt, "if you are negotiating at the WTO, with 161 members operating on a consensus basis, it's very difficult to get things through. For more than ten years now, we've been negotiating the so-called Doha Round, the successor to the Uruguay Round."

Negotiations on the Doha Round started in 2001, and – as with its predecessor – talks have progressed slowly – to put it mildly. Fourteen years on, the members that want to liberalise have become impatient and have decided to advance liberalisation by other means. Those have therefore looked to trade agreements on a bilateral or regional level.

"In trade, bigger is better," says Lippoldt. "Adam Smith defined the fundamentals of trade as enabling firms to specialise their particular niches, so they can improve and sell their products globally in a competitive market. Open markets facilitate development of economies of scale – you need large markets to be able to set up production in a way that optimises productivity.

"So countries have been casting out the net – we've got hundreds of regional and bilateral accords out there. But they're fairly limited in geographic scope, even NAFTA only covers North America.

"But the exciting development in recent years has come in the form of the three mega-regional accords currently under negotiation. The idea behind these accords is that they'll have enough scale and deeper liberalisation commitments from their members to increase the economic rewards substantially on the WTO agreements."

2.15: A long-term perspective illuminates the stark contrast in the evolution of advanced and developing country import shares

The three mega-regional agreements currently under consideration are as follows: the Trans-Pacific Partnership (TPP), which covers 12 nations around the Pacific Basin (US, Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam); the Transatlantic Trade and Investment Partnership (TTiP) between the US and the EU; and the Regional Comprehensive Economic Partnership (RCEP), involving 16 countries across Asia and Australasia (Brunei, Myanmar, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, Vietnam, Australia, China, India, Japan, South Korea and New Zealand).

And they very much merit their 'mega' adjectival labels. In NAFTA, for example, it contains roughly 25% of world GDP, but the TPP would cover around 40%. Similarly, in the EU there is a little less than a quarter of world GDP, but the TTiP would come close to 45% (See Chart 4.7).

The aim of these agreements is to bring together similarly-minded countries, keen for increasing openness, to tackle the trade barriers standing in the way of their economic growth, allowing businesses to trade products that they previously could not – types of food or merchandise that are currently unable to cross borders easily.

Says Lippoldt: "Frank Walter Steinmeier, the German Foreign Minister, last year gave a great example of the kind of trade barriers we're talking about. He cited the automobiles industry. A firm wants to export a car from Europe to the US, but it can't just ship it; it has to remove the taillights because the jurisdictional standards are different. And when I heard him talk about it, I guessed it was something to do with different colour lenses. But, an auto expert subsequently informed me that it's actually to do with the grounding wire: the colours differ between the two regions.

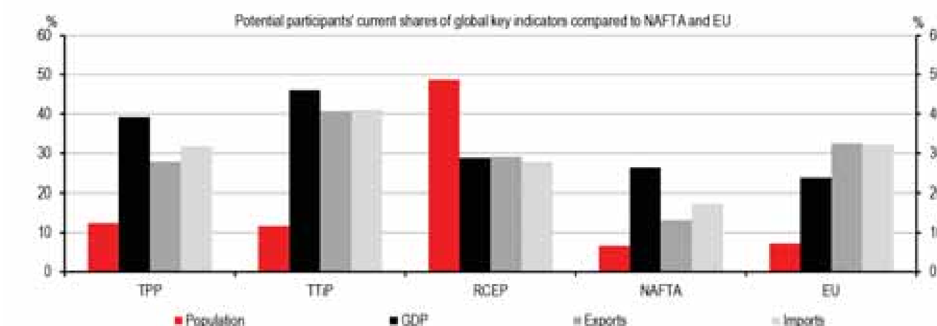
"The negotiations are closed but based on statements from the negotiators. I'm optimistic they will be completed – and the TPP will be the first to sign."

"So you have to stop the importation of a multi-thousand pound vehicle to check if it's got the right colour grounding wires in the taillights. That's just an example of the kind of red tape that can impede trade. It's also an example how time consuming the negotiation process can be in these agreements – when you're done with the main tariff barriers you get down to thousands of micro issues like this."

MEGA REGIONAL AGREEMENTS LIGHT THE WAY

One can eulogise about a post-liberalised world trade economy until blue in the face, but with thousands of issues such as the above to be ironed out to a degree that offers no competitive advantage to any of

4.7: The proposed mega-regional trade agreements will cover much more of the world economy than the existing regional agreements such as the EU and NAFTA.



the parties involved, consensus on these agreements begins to look as hopeful as global nuclear disarmament. So what is the likelihood of these agreements getting over the line? And – with the WTO negotiations in mind – just how long will it take?

"I think they will go through," says Lippoldt. "The negotiations are closed but based on statements from the negotiators. I'm optimistic they will be completed – and the TPP will be the first to sign."

Indeed, the TPP is the most advanced of the three. The negotiators have been working on it for several years now and are currently pushing to make a breakthrough. "I think there's a fair chance that we could have an agreement hammered out by the end of the year, but the negotiators haven't made any commitments on that," says Lippoldt. But even after the agreement is concluded, it still needs to be ratified by each country involved. They all have their own idiosyncratic procedures, which Lippoldt thinks could add another year to the process.

TTiP negotiations are less far along. But they have recently been given new impetus. "The trade representatives met in December 2014 and gave new stimulus to the talks, which are now showing signs of progress. Nonetheless. I think it's going to be one for the medium term."

It was initially hoped that the RCEP would be completed this year, but that is now looking unlikely. Says Lippoldt: "The countries it covers are little more disparate in their levels of development, so it makes it difficult to come to an agreement on how to liberalise and what that would look like. So I think that may also be one for the medium term."

He adds: "Whenever the agreements are signed, I think they will have a meaningful effect and will truly revitalise trade flows."

A SHOT IN THE ARM FOR THE GLOBAL ECONOMY

Indications from some of the economic models published on the agreements forecast

a substantial boost to world economic growth. The Peterson Institute for International Economics, based in Washington DC, has estimated the welfare gains from the TPP to reach around $300 billion annually. And that's just the static effect. Says Lippoldt: "As the rules get implemented and firms realise that the returns to investment are raised because they're selling into a bigger market, they'll re-double their investment in R&D and as a result get more innovation, reap bigger economies of scale, and increase the productivity of their factories. Those are dynamic effects, which reinforce the initial gains."

For TTiP, a European Commission study has foreseen initial welfare gains for Europe of around €128 billion ($142.7 billion), and just under €100 billion ($111.5 billion) for the US. "But another estimate by the IFO Institute in Munich sees the gains as far larger, especially when you also start considering the dynamic effects also," says Lippoldt.

For RCEP, the Peterson Institute published a study in 2012 that forecast the gains at approximately $100 billion. However, the study also stated that if RCEP was merged with TPP in a giant free trade agreement, then those initial welfare gains would rise to $1.9 trillion. "But that's a whole other step in itself," says Lippoldt. "There would have to be some learning and gaining under the current agreements before they're pushed out. However, I would hope that eventually all these agreements can be multilateralised and a level playing field can be implemented on a global scale."

It is, however, important to point out that if the agreements are completed there will be some adjustment costs. Part of the gains from liberalised trade come from redeploying resources to more productive areas. And some of the less productive areas will suffer in the short-term. The latter might require complementary policies to be put in place as backstops. "The OECD has done some work on trade and jobs in the context of liberalisation, and they found that for associated adjustment to yield positive outcomes overall, complementary measures need to be taken such as provision of social safety nets to deal with temporary unemployment, investing in human capital development through training and so on," says Lippoldt.

Despite those potentially detrimental consequences, it is perhaps important to remember that open economies tend to grow faster than closed ones. One World Bank study showed that relatively open economies over the last quarter of a century grew at around 1.5% of GDP faster than those that were relatively closed.

Additionally, adds Lippoldt, trade liberalisation could be a useful complement to the other efforts currently being used to stimulate the global economy. "After all the quantitative easing and fiscal stimulus in recent years, we are running out of levers to pull to stimulate the economy. So we have to look at other areas, such as structural policies, and one of the key structural policies that offers an answer is trade policy.

"Trade policy can remove dead-weight losses and provide a source of stimulus at relatively low cost. There are some adjustment costs and there will be transitional issues: some workers may lose or have to change jobs. But when you look at the national level, it's a net gain, it's pretty cheap to implement and the adjustment costs are generally manageable. We've had a weak recovery going for six years now – I think this would be a pretty good antidote."

So the future is looking bright for trade in the medium to long-term. But it could look a heck of a lot brighter if these landmark agreements get over the line. We can only hope the negotiators have a greater sense of urgency than those at the WTO. ■

"After all the quantitative easing and fiscal stimulus in recent years, we are running out of levers to pull to stimulate the economy. So we have to look at other areas, such as structural policies, and one of the key structural policies that offers an answer is trade policy."

Financing trade and international supply chains: time to aim for the next level

By Alexander Malaket, CITP, president, OPUS Advisory Services International, and deputy head of the executive committee, ICC Banking Commission*

THERE is a great deal happening in the world of trade financing today that is interesting and notable, and a few things that might even be termed transformational. Whether in short-term 'traditional' trade finance, fast-emerging supply chain finance, or ever-critical areas like ECA-backed medium/long-term trade finance or commodity finance, the level of visibility of this business is perhaps unprecedented in its reach beyond the long insular world of a unique, specialised and high-value form of financing and risk mitigation.

Trade continues to be acknowledged and recognised, rightly, as a strategically important policy lever and dimension of commercial activity: a driver of economic value-creation across the globe. It is now clear that trade does not, often cannot, take place without some form of trade financing (which is meant to include risk mitigation), either bank-intermediated or otherwise.

The level of positive visibility currently enjoyed by trade finance, even in the midst of a commodity downturn, continues to reach the highest levels of government, international institutions and business. Linkages between international trade and international development, including poverty reduction, have long been articulated; there are now multiple efforts, credible and of academic robustness, aimed at illustrating the importance of linking access to finance (specifically including trade finance) to trade-based development.

Alexander Malaket, CITP, president, OPUS Advisory Services International

This level of visibility and acknowledgment brings with it both tremendous opportunity and significant responsibility: the responsibility to elevate the degree of collaboration across the industry, to clearly and decisively articulate – and actively champion – the value of trade financing to the global economy and the international system. This demands the leadership of industry stakeholders prepared

The level of positive visibility currently enjoyed by trade finance, even in the midst of a commodity downturn, continues to reach the highest levels of government, international institutions and business.

to take on a mantle of 'statesmanship' that extends beyond self-interest (personal or institutional) to encompass an appreciation for, and a commitment to, the bigger picture.

There have been solid, even commendable, strides in this direction, particularly in the context of the global banking and financial crisis and since. It is, however, worth taking a brief view of the state of the industry with the foregoing statesmanship and big-picture proposition in mind.

Trade financing remains a high-potential dimension of the overall proposition of financial institutions, particularly international and global banks; at the same time, striking growth is observed in the business of cross-border factoring, and there is interest in the field from technology firms perceiving an opportunity in financing supply chains, domestic or cross-border. At the same time as trade financing attracts this previously unseen level of attention, the industry continues to suffer the consequences of decades of self-inflicted commoditisation in pricing, together with an impending shortage of resources and technical expertise, as a retiring generation of trade financiers faces a succession crisis, only partially (and temporarily) offset by a degree of consolidation in trade banking.

On a more positive note, the value and importance of trade finance continues to be better understood, and more widely appreciated. International institutions like the World Trade Organisation, regional units of the United Nations, several highly respected academic institutions and various top-level global think-tanks have all lent their intellectual power and political currency in support of trade finance. This still somewhat disconnected collection of energies demands a considered, strategic and coordinated response from industry leadership.

The ICC Banking Commission has long been acknowledged and respected as an effective and uniquely successful steward of rules, customs and standard practice related to trade financing and international banking, as one of a dozen policy commissions of the International Chamber of Commerce (ICC). In the last several years, the ICC Banking Commission has undergone a gradual evolution, to encompass in its priorities and work programme, numerous initiatives of a decidedly strategic nature, while remaining preeminent in the exercise of its traditional remit.

The ICC Trade Register, even in its evolving state and with focused scope of data collection and analysis, has contributed, together with the voices and support of industry associations and others, to achieving a more equitable alignment between regulatory treatment and the risk and default history of trade finance.

EVOLUTION, EDUCATION, ANALYSIS AND ADVOCACY

The ICC Banking Commission has, on its own or at the behest and with the collaboration of partners, developed numerous initiatives such as the annual 'Rethinking Trade and Finance' survey, which provides data, expert analysis and commentary on the state of the market, and now informs deliberations about trade finance in various quarters, with timely focus on major trends and developments in the market.

The ICC Trade Register, which provides objective, data-supported analysis of the default and loss experience of a set of trade-finance products (short as well as medium/long-term), complements the annual survey in its aim to inform, facilitate understanding and support advocacy with regulatory authorities and other interested parties.

More recently, the ICC Banking Commission was invited to facilitate a multi-association, global effort aimed at refining (and thereafter, promoting the adoption of) a set of terminology and nomenclature related to supply chain finance (SCF): this at a time when the SCF area is in a state of development, and the language around this business perhaps does more to confuse than to elucidate.

This effort, which enjoys the active support and engagement of BAFT (The Bankers' Association for Finance and Trade), Factors' Chain International (FCI), The International Factors' Group (IFG), the International Trade and Forfaiting Association (ITFA) and the Euro Banking Association (EBA), has sought to operate on

the basis of inclusiveness and consensus. The drafting effort has benefitted from the earlier work of various organisations and entities, and is led by practitioners with a wide range of experience, transactionally and geographically.

A recent mandate to the ICC, in collaboration with the Asian Development Bank (ADB), relates to the issue of global de-risking: the post-crisis dynamic that has seen global banks in particular, exit markets, correspondent relationships and commercial relationships (individually and in some cases, at the level of a client segment or sector).

The ADB and the ICC Banking Commission have been asked to determine whether a causal link can be objectively demonstrated to exist between these de-risking activities and the regulatory and compliance pressures and demands that some suggest is at the root of the de-risking activity. The key is to determine whether this is indeed the case, whether it can be demonstrated objectively, and whether it is an issue that results in a net loss of global capacity, or whether there is simply a redistribution of activity as local and regional institutions step in to fill the vacuum.

Efforts continue in driving the industry forward to a more effective use of technology, with particular emphasis on data-based, automated transactions and progress in the development and adoption of paperless trade models. The Bank Payment Obligation (BPO), a joint initiative of SWIFT and the ICC, continues to elicit interest and debate, but there is in recent months, a sense of accelerated up-take, with several trade banks and corporates having shown concretely that this framework is a viable solution to a variety of trade financing, supply-chain financing and working-capital requirements.

Adoption rates need to increase and engagement levels from banks and corporates must rise to reach a real tipping point, however, the dialogue has shifted from one of education and information to one of illustration of potential, well into a commercialisation phase. The persistent question of whether banks should lead adoption or wait for corporates to demand the service is finally giving way to discussions on implementation and execution.

The question of regulatory treatment of the BPO and of paperless trade broadly defined will require work, and industry

leaders – as well as clients – must consider carefully the long-term advantages of sustainable, value and risk-based pricing, as opposed to a return to the commoditisation trap based on price competition, which risks making such innovations commercially unviable.

A major initiative of the ICC, with roots and initial vision in the ICC Banking Commission, is the conception and launch of the ICC Academy, based in Singapore. The Academy is working initially to develop and launch a programme, including courses and professional designations, in trade financing. In the medium term, the Academy will extend its proposition to cover training and the development of competencies across the spectrum of ICC activities.

The ICC Banking Commission is fundamentally committed to the notion of collaboration across the industry, and has been privileged to develop numerous very strong, complementary partnerships – some quite long-standing and others still very much in early stages of development. Consensus, alignment on messaging and broad consultation are hallmarks of the ICC Banking Commission approach, and the dividends for trade finance, and for international trade more broadly, are clear.

ICC and Banking Commission advocacy efforts – subtly distinct in approach from pure lobbying – reach the highest levels of industry leadership, regulatory authorities, government and international institutions, and have contributed very strongly to putting trade finance 'on the map' in various contexts. The ICC Trade Register, even in its evolving state and with focused scope of data collection and analysis, has contributed, together with the voices and support of industry associations and others, to achieving a more equitable alignment between regulatory treatment and the risk and default history of trade finance.

TAKING STOCK: OBSERVATIONS ON THE STATE OF PLAY

Even with such promising initiatives and positive progress on several fronts, there are existential questions about the future nature of trade financing and fundamental debates about the viability and sustainability of such businesses in their current form, within banks and financial services organisations.

At the highest level, it is clear that

trade will continue to be an important part of the landscape, even with post-crisis normalisation not yet achieved, and despite some systemic challenges to the multilateral system, or to the ability of certain regions and markets to fully engage for now.

Trade will continue, and someone will finance as well as risk-mitigate those trade flows.

Will the banking sector retain a material role in this business in the next two decades, or will disruptors so completely redefine the business model, that such transformation coupled with a degree of fatalism by bankers about the viability of trade finance lead inexorably to a reshaping of the trade and supply chain financing market?

Several questions require consideration.

1. Do banks want to be in this business long-term and in a commercially-serious manner?

Bank CEOs chart the course for their organisations, and it is no surprise that financial institutions whose CEOs 'grew up' on the domestic side of the institution, or have evolved a set of strategic priorities around developing a retail franchise, might be less persuaded by the value of a robust international proposition. In such contexts, and even in organisations where senior leadership understands international banking, the willingness and ability of trade-finance executives to advocate for their business internally is critically important, perhaps the single most important factor in determining the future of trade financing within banks.

The global crisis has resolved, for some time, the question about whether the private sector can meet the trade financing needs of the market.

It cannot.

Analysis by the Asian Development Bank suggests that there is a significant level of global unmet demand for trade finance, perhaps in the range of $1.9 trillion annually, with about $1 trillion of that in developing Asia. The crisis also illustrated clearly that a retreat from markets is a real risk (if not a frequent one), and that the presence of public sector and international-institution backstops can be critically important. Discussions about disbanding ECAs as anachronistic institutions have now faded in most jurisdictions around the world, and the ICC Banking Commission is actively engaged in exploring alliance and collaboration opportunities with leading industry associations linked to ECAs and to private-sector insurers.

2. Can trade financiers figure out the economics of this business in a way that makes it commercially sustainable and attractive?

There is significant 'buzz' in the market at the moment about banks debating the profitability and sustainability of traditional trade finance business in particular – with global and regional institutions equally concerned. Trade businesses frequently distribute revenues to country executives and to areas like financial institutions units sharing in L/C Confirmation revenues, while generating significant revenues in foreign exchange groups and other areas that may not be attributed to the trade businesses. There has been meaningful progress over the past years, in the ability of certain institutions to get a better view of the P&L of their trade-finance businesses, but more needs to be done.

It may be difficult to reset market expectations about pricing, to reverse the commoditisation trap into which trade finance has fallen, but a more strategic, sustainable commercial model must be developed around trade financing. It may be that evolutions in supply chain finance will be the context in which certain useful steps can be taken in this respect. It is unrealistic for a corporate-finance executive to express the view that a banking solution that enables access to a new export market, underpins a multi-million euro transaction on a fully risk-mitigated basis, offers the option to access competitively-priced financing and, in the best circumstances, comes with expert advice, is too expensive if it costs his company €400,000.

3. Can trade financiers work out the risk/capital capacity and compliance issues that are consuming resources and constraining the industry?

Vision, innovation and a renewed energy around trade financing will only address one dimension of the issues facing the industry. If the (favourable) risk profile of trade finance is not better understood, in order to allow banks to deploy greater risk and credit capacity, the benefits of effective strategising will only go so far. Similarly, compliance demands and constraints that impact the business to the point of relative paralysis must be addressed rather than taken as a

given, or as a rationale to abandon what should be a solid business.

These issues are clearly outside the influence of trade financiers, but they are well within the realm of collaboration and continued advocacy, and they must be on the list of priority areas requiring attention.

4. Are the banks prepared to proactively identify and respond to market needs in trade financing?

Status quo approaches to market and relationship development are part of the question of sustainability of the business. Unlike market realities of past decades, in the current environment, credible competitors and compelling business models are on the cusp, and several of them are – quite rightly – seeing potential in the financing of international commerce.

Passive over-confidence led to near-disintermediation of banks in the global shift to open account trade which began some years ago; a similar risk may be evolving, and if financial institutions do not step up to address current gaps and unmet demand, non-bank alternatives will do so. The alternative may be for banks to take the lead in conceiving of and pursuing non-traditional partnerships and alliances in support of the financing of international commerce.

LOOKING AHEAD: TRANSFORMATION OR STAGNATION?

Complacency is a threat to the survival of trade finance in the banking sector, yet fundamental market conditions, such as excess demand, long-term need and increasing efficiency and cost-effectiveness through technology combine to suggest that there is a real opportunity to reinvent the business of trade financing, and to redesign the business on a sustainable foundation.

The future of the trade and supply chain finance business demands a statesman-like approach to the position for the next decade of trade and trade financing, and will require the willingness and the vision to seek and develop strong partnerships across the industry and beyond. There is evidence of such evolution in several quarters already, however, the momentum must increase and the reach of such thinking must extend through the industry and across the globe.

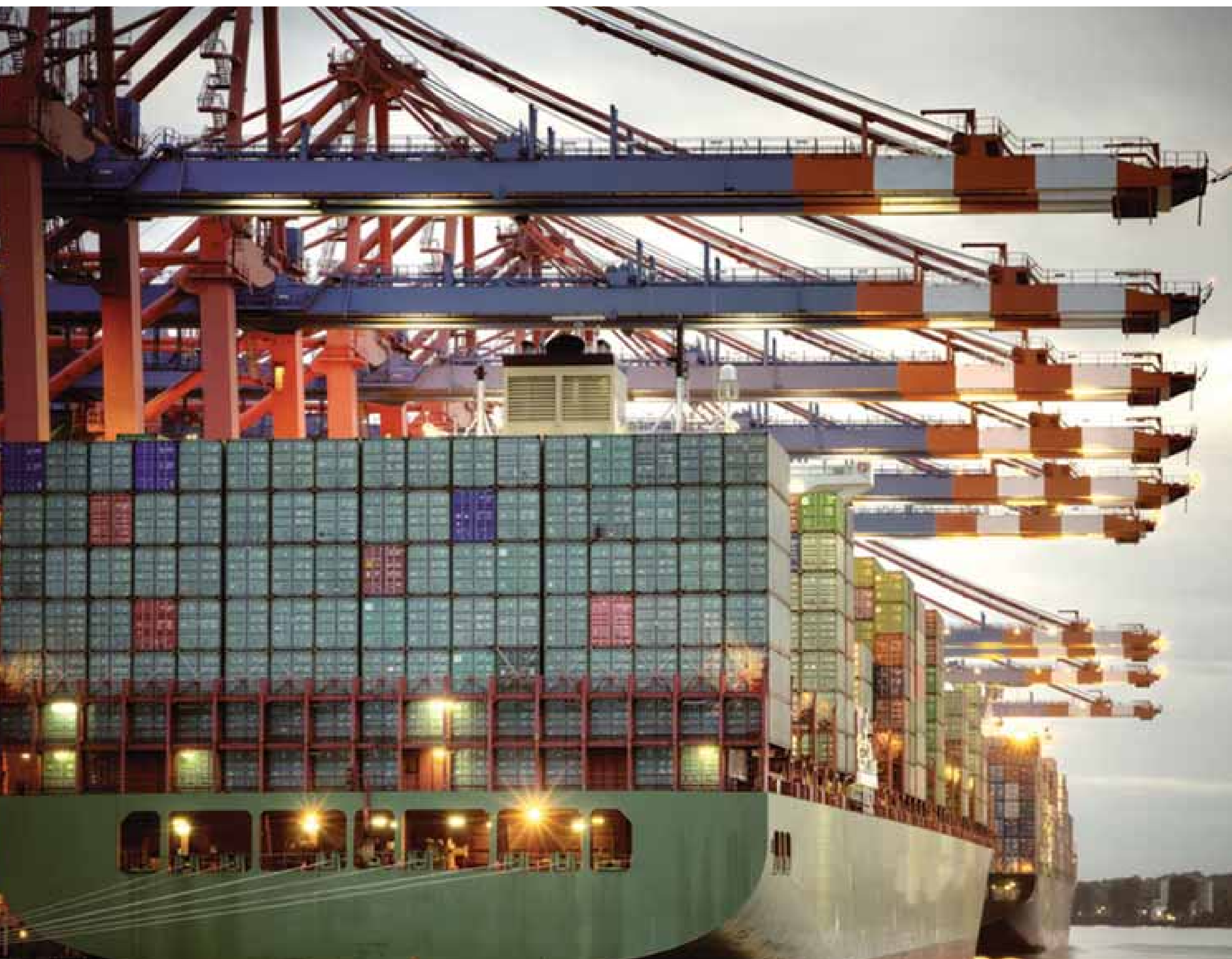
Alliances are a cornerstone of the business of international banking – correspondent networks are part of the fabric of this business, and partnerships in the form of operational outsourcing in trade are long-familiar. The key now is to extend partnerships to areas and in ways that will position the business for growth and evolution. Notable collaborations have developed in the context of trade, including movements toward digital trade and shifts to data and technology-enabled trade financing.

On the issue of education, information and transparency, the increasing interest in trade and supply chain financing from numerous quarters, from academic to public sector to international institutions, also indicates a constructive shift. Successes related to industry engagement in the context of the ICC Trade Register also illustrate the potential of communication and openness. There is ample opportunity to extend the scope of the Register to include more banks and non-bank contributors, to consider the collection and analysis of other elements of data to help shed light on the business of trade financing.

Relatedly, trade-finance leaders must reach a level of comfort with the notion of making certain metrics and data about the business a matter of public visibility, to better enable advocacy for and evolution of the industry. The experience and lessons learnt in the development of the Register can only prove useful to the industry, and can serve as a basis for value-added collaboration, as has already been clearly demonstrated to good effect.

Initiatives like the ICC Academy, which will contribute to addressing the looming resource and competency shortage, must be complemented by active efforts to attract next-generation specialists, but such

The willingness and ability of trade-finance executives to advocate for their business internally is critically important; perhaps the single most important factor in determining the future of trade financing within banks.



resources are unlikely to be persuaded by this industry in its current state. The attraction to a career path with international scope must be complemented by the opportunity to work in an industry that is innovative, energised and at the leading edge of business. Real and sustainable success on this issue demands global collaboration and the shared vision of numerous committed stakeholders.

Finally, the path to a solid foundation and a substantive, sustainable way forward demands decisiveness, a degree of commercial risk-taking and true leadership in the development and adoption of new propositions and business models in the business of financing trade. The hesitancy exhibited relative to the adoption of technology and the shift to paperless financing, first efforts at which date back nearly two decades, reflects a pace of evolution that is simply impractical; similar molasses-like progress in adoption of the BPO reflects a dangerous lack of urgency at a time when evidence of major tectonic shifts is easily discernible.

Familiar 'wait and see' approaches with multi-year decision and adoption cycles are very simple to assess: they are nothing less than an invitation – almost a demand – for agile competitors to step in and respond to the evolving expectations, needs and demands of the global market. If the banking industry and trade financiers in particular, do not, someone else will. ■

**The views expressed in this article are those of the author, and may not necessarily reflect the views of the ICC Banking Commission.*

SaaS casts shadow over licensed software

Helen Castell talks with Kitt Carswell, senior offering manager and vice-president, trade and supply chain solutions at CGI, about why the long-term viability of licensed software is now in doubt, and why more trade finance banks are ditching it in favour of SaaS.

AS COMPETITION in trade finance steps up a notch, banks are under more pressure than ever to get ahead of the pack in terms of the transaction banking and cash management functionalities they offer customers. At the same time, heavy cost-cutting means that within their own bank, trade finance teams are competing fiercely with other businesses for the budget to upgrade the software they use.

Software as a Service (SaaS) – a licensing and delivery model sometimes known as 'on-demand software', in which banks pay for access to centrally hosted software on a subscription model rather than buying a fresh software license every five or so years – is one solution that allows banks to continuously roll out new tools without the onerous one-off bill that can persuade budget custodians to delay investment in the latest licence.

Trade & Export Finance (TXF): ***How widely used is SaaS compared with licensed software and how does it apply to trade finance?***

Kitt Carswell (KC): We are seeing – right across the board, in industry after industry – that SaaS is becoming accepted. It's moving into the mainstream now.

Kitt Carswell, senior offering manager and vice-president, trade and supply chain solutions at CGI

When CGI started offering it in 2001, the name 'Software as a Service' didn't even exist. For years we spent a lot of time trying to explain what we did and why it was a good thing. These days, that's changed – we actually have people who come to us and say: "You're the guys who do SaaS, right? We want to talk about that because that's what we want." So we certainly have moved into the people's consciousness and it's definitely reached the point of greater acceptance.

That doesn't mean that acceptance is universal. Often you'll still have much more acceptance of a SaaS approach on the business and operations side of a bank because the business can see its potential to transform how they work.

Called CGI Trade360, CGI's SaaS trade finance platform offers the whole spectrum of traditional trade and open account, from

Software as a Service (SaaS) really allows you to go in and use trade services as the backbone of transforming how you do your business. It means you can shift your trade finance business from being fragmented – which is where most people are today – to truly holistic.

We are seeing – right across the board, in industry after industry – that Software as a Service is becoming accepted. It's moving into the mainstream now.

payables (such as supply chain finance) or reverse factoring to receivables. We handle the entire gamut. We also have cash management functions that provide, for example, small- to mid-sized companies an online banking capability around payments, and collateral management tools for commodity and structured trade finance.

One of the ways SaaS helps banks transform the performance of their entire trade finance business is by providing a truly global platform that runs their entire trade footprint on one instance, rather than relying on different pieces of potentially incompatible software for different functions and geographical regions. They can see every angle of their trade finance business anywhere in the world, in real time.

Flexible operating models allow banks to design how, when and where they want to do processing or customer service, for example, anywhere around the world. They can centralise processing if they want, say in India. Or they can have it decentralised for each location. Or they can – as with one of our customers – have sub-regional hubs where they do processing for whole regions. SaaS basically allows you to mix and match, very flexibly, to implement any kind of operating model you would like.

The real-time reporting offered by our SaaS offering also means that within 60 seconds of anything happening in a bank's production database, it is replicated in a reporting database that provides real-time visibility of everything happening across the bank's trade finance business, anywhere in the world.

If there's a sudden crisis in a particular country, for example, and management wants to know what the trade finance business's exposure is there, within around a minute they can bring up a report that shows them exactly that, down to the detail of which branch it came from. Any way you want to slice it and dice it, it's there.

Being able to look at what's going on in your business allows you to manage it in real time, as opposed to looking in the rear-view mirror.

SaaS really allows you to go in and use trade services as the backbone of transforming how you do your business. It means you can shift your trade finance business from being fragmented – which is where most people are today – to truly holistic.

TXF: ***Can you quantify what kind of benefits banks enjoy from using SaaS, in terms of improved efficiencies or operational savings?***

KC: CGI Trade360's SaaS creates a huge amount of efficiencies in trade finance. It provides a lot of straight-through processing and it creates a paperless environment – not something normally associated with trade.

CGI's Trade360 platform typically helps banks make operational savings of at least 30%. When banks we are talking to question that, we tell them to talk to our customers as our super-regional banks and regional banks have acheived significant benefits.

TXF: ***IT is viewed by many trade finance bankers as a necessary evil that takes up too much of their time. How can SaaS make life easier for them?***

KC: It's surprising how much time and effort general management need to devote

We work as a partner with banks – we're locked at the hip with the business. So we're looking at their strategic road map with them, and we're picking up the IT side to help them accomplish that strategic plan.

to IT decisions, simply because they involve dollars and the banks' ability to service its customers.

Typically, if you want to go into a new country, you first need to make a business decision about whether to invest in the necessary IT infrastructure. If you do decide to pull the trigger, you then have to work out exactly what resources you'll need – it becomes a whole project.

The flexibility of how we've built our SaaS offering means that if a bank wants to move into a new country, the technology end of that is a no-brainer. Someone just configures that new country on the system and its right there. As far as setting your software up to function for that country, it's really just a matter of our business analyst setting up some rules and telling the system how to behave for that country. There's nothing major to change – typically no coding.

The bank may still need to do some work – perhaps integrating any new back-end systems, creating a new team or sorting out regulatory issues – but the technology side is mostly a given. It shrinks the number of things the business has to worry about, hugely.

And even if a bank isn't putting in a new system, ongoing IT operations under the licensing model can be a huge distraction to management. Issues like disaster recovery – whether it is where it should be and how you will make it available – are too often something that the business side has to deal with on an ongoing basis.

The SaaS model, at least in the way we practice it, takes all that away. We work as a partner with banks – we're locked at the hip with the business. So we're looking at their strategic road map with them, and we're picking up the IT side to help them accomplish that strategic plan.

TXF: ***Trade finance has undergone some dramatic changes in recent years. How does SaaS compare with licensed software in terms of how quickly a bank can respond to those changes?***

KC: If you look at the typical license approach, most vendors in the trade finance space may put out a new release every 18 months or so. There's often a fee associated with getting the new version, and each of their banking customers' needs to justify internally the cost of the internal project to upgrade. Within the bank, the trade finance business may find itself competing for that money against numerous other priorities, especially today when those dollars are very scarce.

Often, they're not able to justify it, so it's really common for banks to be three, five or even 10 years behind in releases. So what they're offering to the marketplace is missing all of the new products and services that might be available from their competitors.

Even if a bank is able to justify upgrading to the new version, it can take at least another nine months to get everything in place. Add this to the 18 months they may have had to wait for the new version to be released and it can take at least two years before they're able to extend a cutting-edge offering to their customers.

With CGI Trade360's SaaS, banks don't need to go through that process. We offer three new releases per year of functional enhancements to our Trade360 platform, most of which have been developed in collaboration with existing customers to provide what they need.

Clients using CGI Trade360 can opt in or out and then test run whichever of these enhancements they want. Then just three weeks after sign-off, the new enhancements automatically show up in their production

One of the ways SaaS helps banks transform the performance of their entire trade finance business is by providing a truly global platform that runs their entire trade footprint on one instance, rather than relying on different pieces of potentially incompatible software for different functions and geographical regions.

environment and are available anywhere in their entire footprint that they want them.

That's a really big difference in terms of how much new functionality they can have to stay ahead of the marketplace in a given period of time. And because those new releases follow a specific schedule that we agree in advance with our clients, banks can start marketing new products to their own customers even before they're in production.

This is especially key for a trade finance business that's in growth mode. And if there are specific enhancements they need to help that happen, we can even fast-track those if necessary. So we're standing shoulder-to-shoulder with them as they go out and grow their marketplace.

One of our client banks has used trade as a wedge product to drive its dramatic expansion into new countries over the past 15 years. As well as allowing them to bring all their trade operations together on one platform, SaaS has allowed them to evolve the platform quickly.

Recent major enhancements for CGI Trade360 include a supply chain finance functionality that takes in approved invoice data from the buyer and allows the invoices to be paid at their due date for the full amount or at an earlier date for a discounted amount. A related approved payables finance function can also filter through invoices to see if they are eligible for the bank to purchase them. The supplier can opt for these purchases to happen automatically or for the supplier to pick and choose which invoices it wants financed.

That's been out for nearly a year. We did a second phase of that where we put in a sophisticated credit note handling and it's been doing very well.

Another recent enhancement is a collateral management capability that creates collateral deals and defines what the collateral looks like. It is most commonly used for warehouse exchange, repo deals and borrowing base. That's a pretty full-blown capability that came into production Fall 2014.

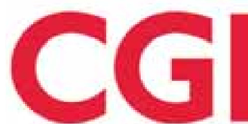
Both those enhancements – just two of up to 60 typically available in each year in new Trade360 versions – are good examples of where we had a client who had needs in those areas and we also thought it was the direction of the market. So we worked together with them to roll it out in pretty quick order.

TXF: ***Not all banks use the licensed software model. What about big global banks like JPMorgan and Citibank, which build their own trade finance platforms? Is SaaS an option for them?***

KC: Building it yourself can take years, meaning there's often a big lag between what you wanted when you started designing it and what you need now. Trade finance is evolving so quickly now, especially in the open-account space, that you could end up with a platform that only meets your past needs. You'd then have to continue building to add on the evolving open-account solution you will need to drive growth.

It's also very expensive. And to continue evolving what you have built can take up another big chunk of financial and human resources – both within the business and IT. It takes a lot of bandwidth out of the bank just to stay current in the marketplace.

With the CGI Trade360 SaaS product, we have a whole set of banks that are all contributing towards the capabilities they need and evolving them forward and everybody's benefiting from that. You're moving much quicker to get new capabilities and it's much less expensive. ■



One of our client banks has used trade as a wedge product to drive its dramatic expansion into new countries over the past 15 years. As well as allowing them to bring all their trade operations together on one platform, SaaS has allowed them to evolve the platform quickly.

The burning issues facing the trade sector

Jonathan Bell talks with David Hennah, head of trade and supply chain finance, transaction banking, Misys, about the burning issues of regulation and compliance, disruptors within trade, globalisation, standardisation and digitisation.

TXF: ***There are massive forces shaping the pattern of trade and the provision of trade finance. One of the biggest influencers is the issue of regulation and compliance. How do you see the impact of these particular forces on the sector, both positive and negative, and what does it mean for the way that a company such as Misys operates?***

David Hennah (DH): Every senior trade banker I have spoken with in recent times has told me that the three things keeping them awake at night are regulation, regulation and regulation. Whether we talk about regulation in the context of capital adequacy (Basel III etc) or in the context of compliance (KYC/AML), it is generally regarded as both a cost and a constraint on the business and hence having an overall negative impact.

At the same time, it may be said that regulation has to some extent accelerated the demand for and development of the next generation of business solutions in both risk and financing. Certainly we are witnessing a continued evolution in so-called supply chain finance or working capital finance solutions, largely based upon the discounting of invoices in one form or another, sometimes buyer-driven, sometimes seller-driven. Execution can be three corner or four corner.

We are also seeing a demand from banks not only to streamline the ways in which they can take on and manage risk but also to obtain new ways to support the distribution of risk, either through participations with other financial institutions or in some cases the securitisation of trade assets to third party investors in capital markets (eg pension funds). This is often driven by the need to make more efficient use of limited amounts of regulatory capital.

David Hennah, head of trade and supply chain finance, transaction banking, Misys

Misys is in the fortunate position of being able to offer business applications across transaction banking, corporate banking, treasury and capital markets so that a bank may choose to work with Misys as a one-stop shop that can provide a fully-integrated solution for trade & supply chain finance with associated options for risk distribution.

TXF: ***Many traditional trade-finance providers are struggling to come to terms with the arrival of so-called 'disruptors' within the industry – finance providers with arguably a more lean and dynamic edge. Is there a real shake-up taking place with trade finance offerings, or do you believe this is another element of natural evolution in the sector?***

DH: A recent market survey conducted by Misys revealed that a majority of banks do perceive that new digitally-enabled supplier finance networks and alternative lenders now pose a significant threat to

Lack of standardisation has made it difficult for banks to scale operations and reduce costs.

their commercial-lending business, including receivables finance and factoring. Certainly there are a lot of new players entering the market. Names such as Amazon and Alibaba represent a new kind of competitive threat in addition to a variety of early payment discount programmes and e-invoicing networks that are now widely available in the market.

The very fact that there are so many platforms out there now is in itself a challenge in view of the administrative, on-boarding, legal and accounting overheads associated with participation in multiple programmes. In some instances, the management of transaction banking accounts according to product usage rather than relationship may prove to be a disadvantage in the face of new financing techniques.

However, where there remains a gap is at the lower end of the market, ie the SMEs who are the lifeblood of the global economy and are commonly the ones most in need of financial support. With new entrants intensifying the competition for transaction-banking services the measure of change in the business cycle is set to become more magnified, as will the pro-cyclical effects of regulations governing the capital adequacy of banks. Increased regulation has further increased the pressure on banks to embrace new technology, replacing outdated delivery models and putting customer interests at the core of their business strategy.

TXF: ***Globalisation has led to the fundamental change in global production and trade flows. However, we now see a real slow-down in the growth of global trade. This, coupled with a downturn in China's export and economic growth, is causing some high levels of concern. How do you view these recent trends?***

DH: Globalisation relates not only to the 'migration' of trade away from the use of

traditional-trade instruments such as letters of credit on to open account, but also the displacement of traditional (North/South or East/West) trading relationships leading to a significant growth in so-called South/South trade, ie trade between emerging markets, in particular within Asia but also between Asia and the rest of the world (Africa, Latin America etc).

Of course, when we talk about Asia, the discussion is dominated by China. And the economic downturn in China is likely to have a negative impact on the global market. We are already seeing some evidence of regional banks re-visiting their strategic investments in light of these developments.

TXF: ***Standardisation and harmonisation of trade and trade documentation is key to the further growth and development of the sector. How do you view these requirements, the initiatives that have taken place so far, and what else do you feel should be done?***

DH: Lack of standardisation has made it difficult for banks to scale operations and reduce costs. Tighter integration will eventually encourage wider market adoption of new messaging standards such as MT798 and the ICC Bank Payment Obligation. The necessary convergence of standards and protocols has led to advances in connectivity, in particular open standards such as ISO 20022.

By moving away from proprietary standards, it becomes possible to simplify information exchange and systems integration. Banks can further extend their role by driving the use of electronic signatures to streamline supplier on-boarding and providing a more complete range of solutions in the management of the supply chain.

TXF: ***Digitisation is a real buzzword in the trade industry at the present time, and there are a number of exciting developments taking place. How do you view the investment in automation and the overall benefits for the financial supply chain?***

DH: I do sense that we have finally arrived at a crossover where there is a shift of emphasis away from the largely negative regime of regulation into the more positive domain of digitisation, whereby banks can differentiate themselves through the deployment of corporate channels that support both automated processing and an integrated platform for trade, supply chain, cash, foreign exchange and lending.

Corporate customers are demanding that new services be delivered as part of the cash-management lifecycle and that these services be aligned with financial supply chains. At the same time, with increased pressure on margins, there is a widespread recognition that digitisation offers banks the means of achieving increased cost-effectiveness and operational efficiency whilst reaping the benefits of stronger customer insights and an ability to leverage new business models.

Data analytics and the derivation of business intelligence are playing a pivotal role not only in the fulfilment of strategic goals but also in complying with the complex management of relationships, regulation and performance as well as the measurement of liquidity, profitability and risk. A paper-driven, labour-intensive business such as trade services is ideally positioned to take advantage of technological transformation through digitisation.

TXF: ***What else do you believe needs to change to benefit the trade sector and provide further opportunities to those involved?***

DH: Digitisation is one of the most important trends to impact financial institutions. Experience shows that each new technology outpaces the adoption of its predecessor. In future we will see adoption rates measured in weeks or days rather than years. Banks need to re-think their operating models in order to stay ahead of the competition. ■

Digitisation is one of the most important trends to impact financial institutions. Banks need to re-think their operating models in order to stay ahead of the competition.

Working capital: a strategic opportunity?

David Viney, of Finacity Corporation, takes a close look at the management of working capital and how companies can use working-capital flexibility as a means of enhancing their corporate and financing strategies.

AS ANY keen MBA student will relate, Michael Porter's Five Forces* model can help management to determine the structure of their industry and provide a backdrop for strategy formulation. Understanding the structure of an industry is an important starting point for management in deciding whether to achieve competitive advantage via (i) differentiation or (ii) low cost.

Appropriately, company management teams spend many months formulating their strategic plans, and plenty of help is available in the form of management consultants who are more than willing to support management in their task. As corporate strategy is debated, many issues are considered, including the company's product suite, relative cost base, distribution channels and the company's relative position in the industry. Rarely, however, is the management of working capital considered at the strategy formulation stage. The working capital of a business is often accepted as a given based on industry norms, or considered as an afterthought, usually as a result of cash-flow pressure when the business is suffering a downturn.

Careful management of working capital is critical to the survival of a firm. However, is there a case for elevating working-capital management to the strategy-formulation agenda, where it is used as a weapon to support management's strategic ambitions, rather than simply accepting it as a by-product of the company's strategic choices?

BACKGROUND

In many cases, a company's business model will determine the working-capital requirements of the business. For example, a personal computer manufacturer such as Dell, which sells its products directly to the end-user using a 'build-to-order' strategy, is going to have materially lower working-capital needs than a competitor that sells through retail distributors and resellers. Depending on its relative bargaining power, the competitor will be obliged to offer credit terms to its buyers within industry norms, resulting in higher working capital needs. Although the competitor can take measures to improve its working-capital position by raising funds against its receivables base, it cannot and should not attempt to disguise the fact that its business model is fundamentally different from Dell's.

David Viney, independent managing director at Finacity Corporation

However, in industries where differentiation is difficult to achieve, working-capital management may have a role to play in supporting a differentiation strategy.

Take, for example, an industry like electronic component distribution, which is typically a high-volume, low-margin business, with a client base that demands access to a vast range of electronic components at very short notice. Some firms have positioned themselves successfully in such industries by adopting a working-capital led strategy with the following characteristics:

- Extensive range of inventory, available to be delivered to the end-user at very short notice; and
- Longer credit terms of up to 90 days, rather than the industry norm of 30-60 days.

Clearly, this is a strategy that takes a high degree of management discipline to execute, requiring extensive warehouse space to maintain the elevated inventory levels, excellent logistics to ensure fast delivery times, access to finance to support the higher inventory and receivables balances and a very disciplined approach to credit underwriting and collection. If executed well, however, it enables a company to differentiate itself in a highly commoditised industry, achieving profitability with higher levels of turnover at the expense of some loss of operating margin and the costs associated with higher levels of working capital.

WORKING CAPITAL FLEXIBILITY

Companies fail because they run out of cash, not simply because they are unprofitable. As we saw during the recent financial crisis, some very profitable companies found themselves in financial difficulty because they had failed to manage their debt maturities appropriately. Many corporate treasurers discovered that the traditional 364-day revolving credit facility, a hangover from the days of Basel I, was of little value to them during a financial crisis that lasted over three years. If their 364-day facility also happened to mature at the same time as their longer-dated debt facilities, they risked becoming a victim of a vicious banking market in which few banks had any capacity to lend.

Thankfully, the debt markets have bounced back, and those companies that survived the financial meltdown have long since had the opportunity to repair the damage to their balance sheets and structure a longer-dated, more diverse maturity profile. However, the current environment of low interest rates, freely available credit and flexible working capital financing instruments offers companies an opportunity to add much greater flexibility to their working capital arrangements. If this low interest rate environment is here to stay, such flexibility may have scope to shape corporate strategy for those companies operating in challenging operating environments.

STRATEGIC OPPORTUNITIES

Take, for example, the European grocery market, an industry that is currently facing severe challenges resulting from retail overcapacity, aggressive growth of discount retailers and changes in consumer shopping habits. In the current environment, retailers put significant pressure on their suppliers to reduce prices and extend credit terms, pressures which are forced back through the supply chain to the suppliers of raw materials. These are often relatively small businesses that lack the resources and access to finance to support the demands of the industry.

A grocery wholesaler, operating in such a difficult market, has to make a strategic choice. Does it bend to the will of the retailers by agreeing to extend its credit terms and reduce its prices, and try to pass on as much of this 'pain' as possible to its suppliers? Or is there a way to adopt a more flexible working capital structure that would allow the wholesaler to satisfy some of the retailer's demands, but also defend its gross margins?

Let us imagine a typical grocery wholesaler that, with respect to Porter's Five Forces model, has neutral bargaining power with its buyers, but relatively strong

Is there a case for elevating working capital management to the strategy formulation agenda, where it is used as a weapon to support management's strategic ambitions, rather than simply accepting it as a by-product of the company's strategic choices?

bargaining power with its suppliers. The company is in an enviable working-capital position, with limited net borrowings and comfortable headroom in its banking and other debt facilities. In response to demands from retailers to reduce prices, the wholesaler may choose to defend its margins by selectively offering extended credit terms as an alternative.

To provide the required working-capital flexibility, the wholesaler could take advantage of the current low interest rate environment and recent contraction in bank-credit spreads by undertaking a securitisation of its receivables base, with a facility tenor chosen carefully to fit its existing debt-maturity profile. If combined with an extension of credit terms that would provide valuable additional working capital to its retailers, such a securitisation would be working capital neutral to the supplier, but with additional financing costs associated with the securitisation facility. If the funds from the securitisation exceed the increase in receivables created by the elongated credit terms, the transaction would be cash positive for the wholesaler.

To defray the additional cost, and to utilise the excess liquidity, the wholesaler may simultaneously enter into a Payables Auction Management (PAM) programme. A PAM programme enables the wholesaler to offer certain of its suppliers the opportunity (but not the obligation) to participate in periodic reverse auctions, whereby the suppliers indicate the maximum discount they would accept for early settlement of their outstanding invoices.

Based on the invoices offered and the discounts achievable thereon, the wholesaler can decide which invoices and discounts to accept for early payment, if any. A PAM offers easy-to-use tools to enable the wholesaler to determine the most appropriate ways to deploy its surplus liquidity, offering scope to offset some of the gross-margin pressure being felt across its key retail markets. In addition, the wholesaler is able to offer its suppliers access to valuable liquidity, but the voluntary nature of the programme minimises any damage to the supplier relationship.

CONCLUSION

Such a strategy is not for the faint-hearted, requiring certain access to capital and a very disciplined management team to control the additional risks. During the financial crisis, the world was littered with banks that tried to 'lean into' the recession to gain market share, only to discover that the recession was deeper and more prolonged than previous recessions. Many still have the 'battle scars' in the form of stubborn non-performing loans on their balance sheets. No corporate would wish to emulate this approach.

However, when facing margin compression in a fiercely competitive environment, those companies with access to capital and a disciplined approach to risk management, could take advantage of the current low interest rate and low credit-margin environment to use working capital as an additional strategic weapon. Companies in such a situation may want to dust down the DuPont Model to calculate whether a combination of securitisation and PAM that protects their operating margins makes strategic sense. Food for thought, certainly. ■

David Viney is an independent managing director with Finacity Corporation, a leader in receivables financing.

*Source: Michael E. Porter, 'The Five Competitive Forces That Shape Strategy', Harvard Business Review, January 2008, 78-93, by Harvard Business Publishing.

The current environment of low interest rates, freely available credit and flexible working-capital financing instruments offers companies an opportunity to add much greater flexibility to their working-capital arrangements. If this low interest rate environment is here to stay, such flexibility may have scope to shape corporate strategy for those companies operating in challenging operating environments.

COMMODITY FINANCE

COMMODITY FINANCE 2014

Total amount
$104.8bn

No of deals
122

Avg FIs per tranche
9.7%

Avg pricing
272.5bp

Top region
Europe

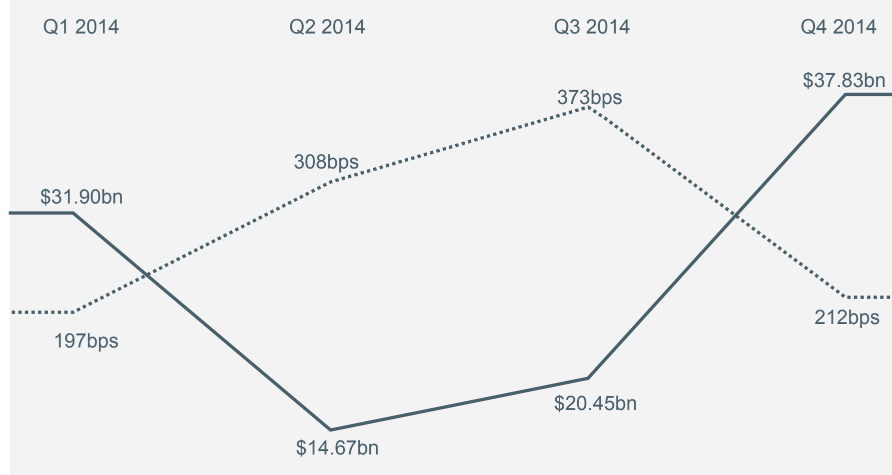
Data answers to big questions:

Who were the biggest borrowers?

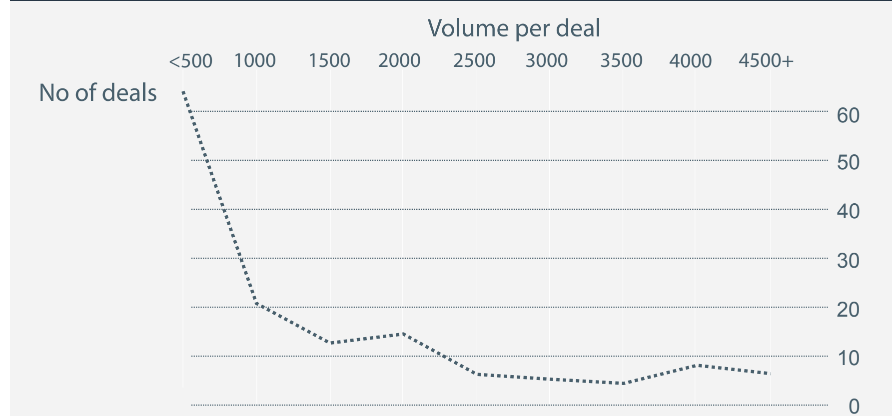
Top ten borrowers

		USDm	%
1	Trafigura.	12,673	12.1%
2	Vitol	9,370	8.9%
3	UralChem	4,500	4.3%
4	Lundin Petroleum	4,000	3.8%
5	Mercuria Energy	3,650	3.5%
6	Newmont Mining	3,575	3.4%
7	RUSAL	3,560	3.4%
8	Stemcor	3,470	3.3%
9	Gunvor	3,400	3.2%
10	Det Norske Oljeselskap	3,000	2.9%

How did the volumes, and their cost, evolve?



What was the most popular deal size?



*NB: The data presented in this report is derived from tagmydeals.com, which is our user generated deals database. We rely on institutions submitting deals to us and hence do not cover the whole market. If you are interested in the volumes of individual export credit agencies (ECAs) please also check the company reports and website of the specific ECA you want information on.

powered by tagmydeals
TXF DATA

For more information about **tagmydeals**, or to access the **TXF data tool**, you can:
• Call: +44 (0) 203 735 5180 • Email: alfonso.olivas@txfmedia.com • Visit: www.tagmydeals.com

WHEREVER YOU MAY GROW

AT BNP PARIBAS, WE ARE COMMITTED TO
YOUR BUSINESS EXPANSION IN EUROPE AND BEYOND

More than 160 years of experience in corporate banking

120 business centers in Europe

1500 dedicated Relationship Managers in Europe

Active in 22 European countries

4 Regional Hubs in Asia-Pacific, USA, Latin America and Middle-East Africa

BNP PARIBAS, THE BANKING PARTNER FOR EUROPEAN BUSINESSES*

Our unique and integrated network of relationship managers and specialists gives you on-the-ground insight with global expertise for your business

BNP PARIBAS | The bank for a changing world

bnpparibas.com

* For more information about our ranking and awards, please refer to our corporate website.

OECD transparency regulation to prove taxing for big traders

Multinational corporations and the big commodity traders control a vast amount of global trade flows. Now, a new scheme from the OECD could require these companies to be much more transparent about their activities. Oliver Gordon investigates.

IF PRIZES were being dished out for corporate success since the turn of the millennium, the big commodity trading houses would be right up there at the front of the queue. In the last five years alone, the sector's biggest players – Glencore, Vitol, Trafigura and Cargill – have doubled their combined annual revenues, which now stand on the verge of $1 trillion.

But with those inflating coffers has come an increasing degree of public scrutiny, particularly from the looming spectre of international financial regulators. As private companies, the traders have traditionally worked free from the binds of regulatory constraints. But as their prominence has grown, so has the call for them to come out of the shadows and be more transparent about their business practices – whether the assumed implication is warranted or not.

Last year saw them fight off a first regulatory sally, as they came up against claims – primarily from the international banks – that their increasing provision of commodity finance in recent years should see them labelled as global systemically important financial institutions (G-SIFIs) by the Financial Stability Board, and consequently have to adhere to the same restrictive capital requirements as the banks themselves. After exhaustive lobbying efforts on both sides, an FSB report into the matter sided with the traders, allowing them some respite from what was proving an increasingly distracting debate.

But as they committed themselves to fighting off that full-frontal attack, many traders appear to have overlooked a smaller sortie on their flank that could eventually make their current business models obsolete.

UNLUCKY NUMBER 13

In early June, the Organisation for Economic Cooperation and Development (OECD) quietly announced the 'Action 13' package of measures implementing a new country-by-country reporting plan developed under the OECD/G20 Base Erosion and Profit Shifting (BEPS) Project, aimed at boosting transparency in the international tax matters of large multinational enterprises (MNEs).

A senior executive at a Swiss-based trading house, who asked to remain unnamed, tells *TXF*: "The regulation is about bringing a wider transparency to the financial industry. I think the regulators are concerned about what they don't know and what impact it can have on our financial system – they just don't want any more nasty surprises.

"The problem is, it's not commonly known in the trading industry. But people are starting to wake up and realise that it's something they are going to have to address. I've spoken to other traders and they're completely unaware of it. But when I talk to my tax guys, they're certainly pretty worried."

The new reporting requirements, however, will not be restricted to only the large commodity trading houses. The OECD define an MNE group as one that includes two or more enterprises that are based in different tax jurisdictions, and has total consolidated

group revenue of over €750 million a year.

"The multinational traders obviously fall into that category," says the source. "But so do groups like Rio Tinto, BHP, Johnson & Johnson and Unilever, as they all have multi-jurisdictional operations and extensive international supply chains. It will reach your fast-moving consumer goods (FMCG) companies as well and your large natural resource producing firms."

The package was approved by the member countries of the OECD/G20 BEPS Project at the last meeting of the OECD Committee on Fiscal Affairs on 27-28 May. The wider BEPS Project sets out 15 key actions to reform the international tax framework and ensure that profits are reported where business activities are carried out and value created. It is aimed at helping governments protect their tax bases; while guarding against new domestic rules that result in double taxation, unwarranted compliance burdens or restrictions to legitimate cross-border activity.

The Action 13 part of the BEPS plan enforces transfer pricing reporting standards that are designed to allow tax administrations to obtain a complete understanding of the way MNEs structure their operations, while ensuring the confidentiality of the information.

States the international forum: "Action 13 of the BEPS Action Plan recognised that enhancing transparency for tax administrations, by providing them with information to assess high-level transfer pricing and other BEPS-related risks, is crucial for tackling base erosion and profit shifting."

The country-by-country reporting requirements will force MNEs to provide aggregate information on a yearly basis in each jurisdiction in which they do business. The information relates to the global allocation of income and taxes paid, together with other indicators of the location of economic activity within the MNE group. Also covered is information about which entities do business in which particular jurisdiction, and details of all their activities.

Action 13 essentially forms model legislation requiring the ultimate parent company of an MNE group to file country-by-country reports in each of the tax jurisdictions in which its affiliates reside, including backup filing requirements when the jurisdiction does not require filing. The package also contains three Model Competent Authority Agreements, which will allow the exchange of country-by-country reports among tax administrations.

THE PRICE OF TRANSFERRING

Says the source: "The OECD is trying to work out true origin of certain commodities and their destination. Under the existing reporting lines, things are distorted by the nature of Swiss or Maltese-based booking centres, along with the other offshore destinations that things get booked from. So true origin sometimes gets lost. There's an element of CSR to the change, making multinationals responsible for development in the countries in which they operate. And tied in with the attempt to establish that true origin is the clampdown on transfer pricing."

And that is the key issue here for the commodity traders – the changes to transfer-pricing rules. Transfer pricing is the price at which companies charge affiliates of the same multinational group for the provision of goods or services. Transfer pricing drives the allocation of profit between group companies, which impacts on where and how much tax is paid by the company.

"For example," says the source, "quite often if you're an integrated mining or trading company, you'll produce copper in, say, the DRC. You might export it on a cost-plus price, but that cost plus really is not where the true profit is in the deal – you'll keep that profit offshore in Switzerland or another jurisdiction because the true-sales price is not reflected all the way back to the producing entity. So there's an element of transfer pricing where the profit is stuck in a neutral or tax-friendly jurisdiction, and in the producing country you basically cover your costs and don't show a huge profit."

The transfer-pricing change will result in many traders having to reconsider their business models. For example, a centralised trading model – in which a single central trading entity earns the majority of reward in the group, and provides trading support and financial capital to a network of trading hubs in key locations that are characterised as trading service providers earning relatively low returns – may no longer be so straightforward in a post-BEPS landscape.

The change will see the large traders suffer at the expense of their smaller counterparts and the resource-producing countries within which they operate. "For a company like a Glencore, it could

be a very onerous process to have to go through, because you'll have to divulge what operations you have in Zambia, the DRC and so on. Both your flows and operations," says the source.

"For the smaller companies, it won't have any impact because they don't meet those turnover thresholds. But I guess for some of these countries which are resource rich but don't see any added value or appreciation, these reports will be pretty useful. They'll be able to see numbers being generated, which have an impact on local taxes and royalties, mining laws and charters, oil revenues and so on."

But, for now, many of the larger traders aren't losing any sleep over the issue. Or are even aware of it. *TXF* spoke to a senior treasury officer at the one of the big energy traders who was completely oblivious to the impending change or its likely consequences. But most are simply refusing to panic until the regulation is properly fleshed out.

Says the source: "There are still a lot of unknowns. If you read through the guidelines, they do say that some of the detail will remain confidential, but how confidential I don't know. So maybe there's a way of sanitising the information. Then, what's the OECD's agenda here? What can the information be used for? And actually how many people will adhere to it and report it thoroughly? How does the OECD enforce it? Will there be penalties? It might just be on a voluntary level. So there's a lot of unanswered questions."

So how unlucky Action 13 will finally prove for the commodity traders is yet to be seen. But one thing for sure is that the regulatory grim-reaper has finally come knocking on the traders' door, and he'll have to be sated in some form or another. "I don't think it's a bad thing," says the source. "It just means more regulation and more financial reporting. I think it'll have a positive effect on the business." ■

TXF AFRICA 2016

EXPORT, AGENCY & PROJECT FINANCE

With Ethiopia announced as the fastest growing economy in the world, TXF are heading to Addis Ababa to deliver TXF Africa 2016: Export, Agency and Project Finance

ADDIS ABABA

Price: £1199

For earlybird and group discounts, please contact marketing@txfmedia.com

Visit www.txfnews.com/Events to book or email lucy.morris@txfmedia.com

25TH & 26TH FEBRUARY 2016
SHERATON HOTEL, ADDIS ABABA, ETHIOPIA

Cocobod's success stands as an example for other African nations

Jonathan Bell reviews this year's Ghana Cocobod financing, analyses the record of pricing, and looks at the prospect of further value-added for African soft commodities.

IN JUNE of this year, Ghana Cocoa Board (Cocobod) formally announced the close of the senior phase of its annual pre-export receivables-backed financing (PXF) for the 2015-2016 cocoa crop. In its 23rd year, this is the longest-running annual commodity crop financing in the world. It is an amazing story, as few would have predicted it – after all, this is a soft commodity, it is in sub-Saharan Africa and the size of the deal each year is massive.

It certainly is the largest soft commodity financing in Africa and one of the largest across the globe – but also one of the largest pure-commodity financings. It is without doubt a prestigious transaction to be involved in. Cocobod has an impeccable performance and repayment record. It is no wonder that year after year, banks vie for the mandate and others are keen to be seen as part of the transaction.

The continuing success of the annual Cocobod financing shows what can be done in African countries where commodity boards are organised and banks are comfortable with the procedures, accounting and overall transparency.

Cocobod is under the responsibility of the Ministry of Finance and Economic Planning, which supervises Ghana's cocoa industry. Ghana is the second largest cocoa exporter in the world and thus cocoa is a strategically important commodity for Ghanaian exports. Ghanaian cocoa is of superior quality and commands a premium.

In addition to Cocobod's principal functions of purchasing, marketing and exporting of cocoa, it also promotes the production of the commodity, focusing on the maximisation of cocoa production and crop yield through agronomic research programmes and major logistic-management investment.

This year, the financing was launched with Cocobod seeking $1.8 billion under a PXF structure. The facility was fully underwritten by the arranging group – with a hefty oversubscription – at that stage. Proceeds from the facility will be used to assist Cocobod in meeting its financing needs for the 2015/2016 cocoa crop.

As we go to press with this publication, final signing of the transaction is imminent and is expected to take place in mid-

"Cote d'Ivoire, Ghana, Nigeria and Cameroon account for almost 80% of global cocoa production. The idea is that by 2020, we want to transform the cocoa production and processing capabilities of those countries."

September, following the full general-syndication phase. Signing always takes place in Paris. It is a nice city!

The coordinating initial mandated lead arrangers (co-IMLAs), bookrunners and underwriters of the senior phase are: Barclays Bank; Commerzbank, London branch; Deutsche Bank; Natixis; Standard Bank and Sumitomo Mitsui Banking Corporation (SMBC). These IMLAs worked together with the cooperation of Standard Chartered Bank as co-arranger and Ghana International Bank as an IMLA.

The group of banks above is largely the group which won the mandate competition back in April.

Within the senior syndication phase, Bank of Tokyo-Mitsubishi UFJ (MUFG), DZ Bank, HSBC France, KfW IPEX-Bank, Nedbank, Qatar National Bank, Rand Merchant Bank, ABN AMRO Bank, Société Générale CIB (SG CIB), Crédit Agricole CIB and Intesa SanPaolo, Dubai branch joined the facility as senior mandated lead arrangers ahead of the launch of general syndication.

Speaking to *TXF*, bankers say that the senior phase of syndication saw a heavy oversubscription with some initial takes being diluted to accommodate the institutions joining as senior mandated lead arrangers. The banks in senior phase traditionally get the bigger tickets. A banker informs *TXF*: “The senior phase went much better than we had hoped.”

Pricing on the transaction is very much in line with last year (see below). One banker tells *TXF*: “Instead of looking at the actual margin, you have to really look at the all-in return on this deal. This is a deal with an average life of less than six months, and with the fees related to position in the syndicate, the return is definitely not as bad as it looks if you just view the margin.”

This statement referring to an “average life of six months”, is as such because drawdown of the loan takes place from October to January and it repays from February through to August.

Another banker tells *TXF*: “We did this deal last year as well. It is the most prestigious soft-commodity deal in Africa, if not the world. It is a privilege to do this deal.”

Bankers also tell *TXF* that Cocobod has already said that they will not be taking any more than the $1.8 billion – regardless of the hefty oversubscription.

The mandate for this year's deal was awarded back in April to the group comprised: Barclays Bank; Commerzbank; Deutsche Bank; Natixis; Standard Bank and SMBC.

The competition was just between two groups this year. The competing group comprised: MUFG, DZ Bank, KfW IPEX-Bank, Nedbank, RMB and SG CIB. And by all accounts it was a very closely fought competition.

It is traditional that the banks in the losing group vying for the mandate are the first to be invited into the senior syndication phase.

Law firm Sullivan & Worcester formally was appointed to advise Deutsche Bank, as documentation agent, and the lenders in the annual pre-export receivables-backed trade finance facility for Cocobod.

Geoffrey Wynne, head of the trade & export finance group and Sullivan & Worcester's London office, comments: "We are delighted to be appointed again to advise on this significant annual financing, which was very successful last year despite challenging market conditions." Wynne is leading the Sullivan & Worcester team and is supported by London associate Sam Fowler-Holmes.

THE AFRICAN YO-YO DEAL

This year's financing stands at $1.8 billion, but it is certainly not the largest ever Cocobod annual financing – the biggest being the one signed in September 2011 at $2 billion. But in terms of pricing it is very much what I term as the African yo-yo.

Over the years, the margin on this deal has been up and down like a yo-yo. Why? Well, largely it relates to the constant jockeying to win the mandate. Unlike other markets where we see swings in pricing more related to market/product economics and subsequent bank appetite, the Cocobod deal is all about the way the banks themselves handle the competition for the mandate.

So, let's take a look at it a bit more closely. Back in 2005 the basic pricing (without fees etc) was at a shockingly low (for the banks) 32.5 basis points (bp) over Libor. With increased competition for the mandate, the banks did a poor job in taking pricing down even lower to 20bp in 2006 (obviously a great job if you are Cocobod), and then to the depths of 16bp in 2007! What were they thinking? Incidentally, the mandate that year was won by a group consisting of Natixis, SG CIB and Standard Chartered – with Ghana International Bank of course.

Cocobod annual financings and pricing 2005-2015

Year	*Amount $*	*Margin without fees (basis points)*
2005	550 m	32.5
2006	810 m	20
2007	900 m	16
2008	1 bn	45
2009	1.2 bn	250
2010	1.5 bn	90
2011	2 bn	100
2012	1.5 bn	175
2013	1.2 bn	75
2014	1.7 bn	60
2015	1.8 bn	62.5

So, at that point, surely pricing couldn't get any lower? Right. The deal climbed back up to 45bp in 2008. Then, shock of shocks, in it comes at 250bp in 2009 – which was the year the deal hit a cracking $1.8 billion in commitments, but Cocobod elected to only take $1.2 billion. The five-fold rise in pricing in 2009, was not so much related to banks jockeying on the deal, but much more to do with the fundamental correction that had taken place in the market following the global economic crisis of 2008-2009.

The deal fell in pricing after this to get down to around 100bp in 2011 – the year of the $2 billion.

Then something extraordinary happened – the following year the banks revolted. The 2012 mandate award saw no bank group competition, as, fed-up with the shenanigans of the mandate competition, the traditional Cocobod MLAs clubbed together to insist that they were all given IMLA status. And that year pricing was 175bp on a $1.5 billion deal. Humph, the following year – 2013 – it was back to the normal competition and pricing on that $1.2 billion transaction sunk back to 75bp. So yo-yo!

Today, banks are increasingly reluctant to talk about pricing on most transactions. Last year's Cocobod basic margin is understood to have been 60bp, and this year it is up to 62.5bp, I am informed. But as one of the bankers involved this year states, it is not simply about the margin, it is about the all-in return for a bank at IMLA status. ■

The crucial role of value-added agri projects for Africa's future

With the bulk of sub-Saharan African agri commodities that are destined for either intra-African trade or overseas export being despatched as raw material, there is a real need to move to further add value before export. Further processing in country provides more jobs, further skills and training, the development of an industrial base and the food and packaging sector in particular, economic enhancement and increased export earnings overall.

It is also an issue which is being pursued and promoted by several well-placed institutions, none least the African Export-Import Bank (Afreximbank). Speaking at the Fin4Ag Conference in Nairobi in July last year, Jean-Louis Ekra, president of Afreximbank, stated: "Africa requires $21 billion over the next 10 years to fill the finance gap in agricultural financing."

Speaking in the 'Best practices in agri-value chain finance' session to an audience of close to 400 delegates, the Afreximbank president referred to the need for increased financing for infrastructure, irrigation systems and other facilities. At the same time, he stressed the importance of greater agricultural product processing within Africa for the benefit of economic development across sub-Saharan Africa.

He stated: "Twenty-one years ago we started with warehouse financing of soft commodities – primarily cocoa, coffee and cotton. However, we saw that countries weren't doing added-value. As such, we launched the Africa Cocoa Initiative (AFRICOIN)* to help producing countries further process the product."

He added: "Cote d'Ivoire, Ghana, Nigeria and Cameroon account for almost 80% of global cocoa production. The idea is that by 2020 we want to transform the cocoa production and processing capabilities of those countries.

"To this end, we have started financing indigenous producers and exporters to add value to cocoa – by producing cocoa butter and cocoa cake. So far we have been able to finance producers in Cote d'Ivoire, Nigeria and Ghana."

The Afreximbank president also noted that Germany's KfW has pledged $100 million to help develop the Africa Cocoa Initiative, through a multi-faceted financing component.

In addition, Ekra asserted: "Our objective is not to simply stop at cocoa, but to build and duplicate this objective to other projects – particularly with rubber and palm oil. We have started with Olam in Gabon where we have put more than $100 million into a palm oil project, which will take the production cycle all the way through to palm oil, butter and other products."

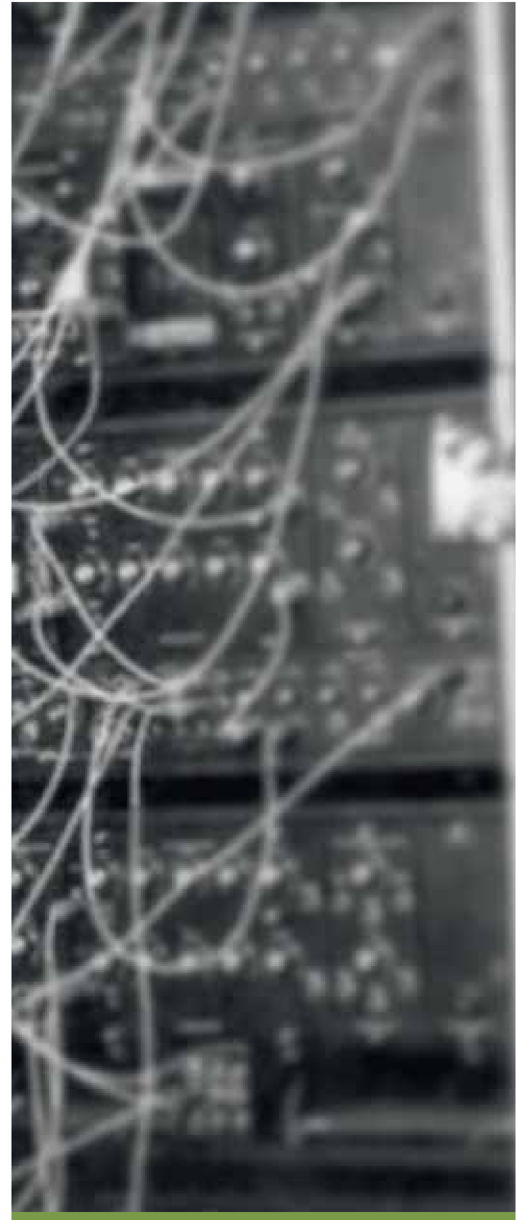
With regard to AFRICOIN, during 2013, the bank provided a $17.5 million dual-tranche receivable-backed financing facility in favour of FTN Cocoa Processing, Nigeria (FTNCP). The proceeds of tranche one was used to refinance existing debt obligations of FTNCP due to United Bank of Africa ($6.875 million) and Union Bank of Nigeria ($1.2 million). Proceeds of the second tranche of the facility ($9.425 million) was used to finance the purchase of cocoa beans and other inputs for the processing of cocoa beans into cocoa butter and cake for export.

Though FTNCP initially applied for working-capital financing as specified in tranche two, the bank, after assessing the company's needs, realised that the company needed more than working capital to enable it fully utilise its current installed capacity. Afreximbank thus offered the term facility to underscore its determination to support entities in the agriculture value chain that promote export diversification. The support provided by the bank enabled the company to fully utilise its installed plant capacity, raise productivity and quantity of its finished products, and secure more profitable partnerships with major offtakers of processed cocoa products. Further, the bank's support enabled the company to create about 380 (130 direct and 250 indirect) jobs.

The company's contribution to Nigeria's foreign-exchange earnings capacity was also raised to about $40 million per annum, besides other contributions in the form of socio-economic development under the company's corporate-social responsibility to its local community, and training programme for local cocoa farmers, among others.

In addition to this, in 2013 Afreximbank supported other companies in the cocoa-value chain in Cote d'Ivoire under the AFRICOIN. The support included a $45.5 million pre-export receivables-backed finance facility to Société Amer Et Freres Cacao (SAF-CACAO); a $13 million export receivables-backed financing term loan in favour of Société D'usinage Et Conditionement Du Sud-Ouest (SUCSO); and a $13 million pre-export receivables-backed facility in favour of Choco Ivoire. The various assistance extended by the bank to the export processing companies are expected to create more jobs, both direct and indirect, and contribute to improving the foreign-exchange earnings of Cote d'Ivoire. ■

** Afreximbank launched AFRICOIN in 2012, and the bank expanded the activity considerably in 2013. AFRICOIN is intended to: (i) facilitate productivity growth in African cocoa farms, (ii) promote and finance increased processing of cocoa beans into industrial raw materials (cocoa liquor, cocoa powder and cocoa butter) to feed manufacturing plants in Africa, Europe, North America and Asia, and (iii) promote consumption of cocoa in origin countries.*



Don’t overcomplicate your data analysis

Let the TXF Data tool do the hard work for you

The data in this report represents a fraction of what is available through the TXF Data tool. Nothing else gives you such in-depth, instantly accessible information on your market.

Don't spend any more time waiting for reporting and analysis. Contact us today to discover how this will benefit your business.

Email max.carter@txfmedia.com for a demonstration.

Mercuria v Citigroup: The issues and implications for the commodities market

Robert Parson and Jonathan Solomon, partners at law firm Reed Smith, take a look at the implications for the commodities market of the recent Mercuria v Citigroup court ruling.

THE judgment on the claim brought by Mercuria Energy Trading and Mercuria Energy Group (Mercuria) against Citibank NA and Citigroup Capital Markets (Citi), was published earlier this year by the English Commercial Court and its impact on the financing of metals and other commodities in China and elsewhere is already being weighed carefully by market participants..

The dispute surrounds Mercuria's sale to, and repurchase (repo) from, Citi quantities of aluminium and copper stored in warehouses in the ports of Quingdao and Penglai in China. This took place in the context of the discovery of a substantial fraud involving the alleged disappearance or multiple financing of metal, and affecting a number of traders and banks involved in the financing of metals in both locations.

THE ISSUES

The key questions raised by the case, and which are of concern to market participants, are:

How do the courts construe the commonly used provisions of commodity repo agreements designed to accelerate the repurchase date?

What performance was required by a buyer to redeliver warehoused goods under a commodity-repo transaction without physical delivery of the goods themselves? Does the seller (trader) still have to pay if the buyer (bank) fails to deliver?

Where does risk of loss lie as between the seller (trader) and buyer (bank) in a commodity-repo transaction, when the goods are alleged to have been lost (or never to have been in existence)?

Robert Parson, partner in Reed Smith's Energy and Natural Resources Group

Jonathan Solomon, partner in Reed Smith's Energy and Natural Resources Group

What are the financial implications for the seller and buyer of failing to repurchase/redeliver in such circumstances?

Where will this dispute go next?

BACKGROUND FACTS

Citi and Mercuria entered into two Master Agreements in May 2013, under which a number of 'obligated' repo transactions were executed. Mercuria was bound to repurchase the metal from Citi at the end of the contract term. Citi and Mercuria also entered into a parallel services agreement whereby Mercuria undertook certain obligations in relation to the storage and care of the metal.

The contract entitled Citi to serve a Bring Forward Event notice (BFE notice) in certain circumstances where its metal was seen to be at risk.

The effect of a BFE notice was to accelerate the repurchase (and payment date) of a transaction to one banking day after the notice is served, rather than await the later contractual resale date. In circumstances where the underlying goods may be in danger, it allows the buyer (bank) an opportunity to exit the transaction (and therefore its risk position) earlier.

Discovery of fraud at warehouses in Chinese ports in June 2014 led Citi to serve BFE notices on all the transactions.

Mercuria in turn notified Citi of a termination event on all the transactions on the basis that Citi was not in a position to perform redelivery.

Citi tendered redelivery of the warehouse receipts of the affected warehouses in China.

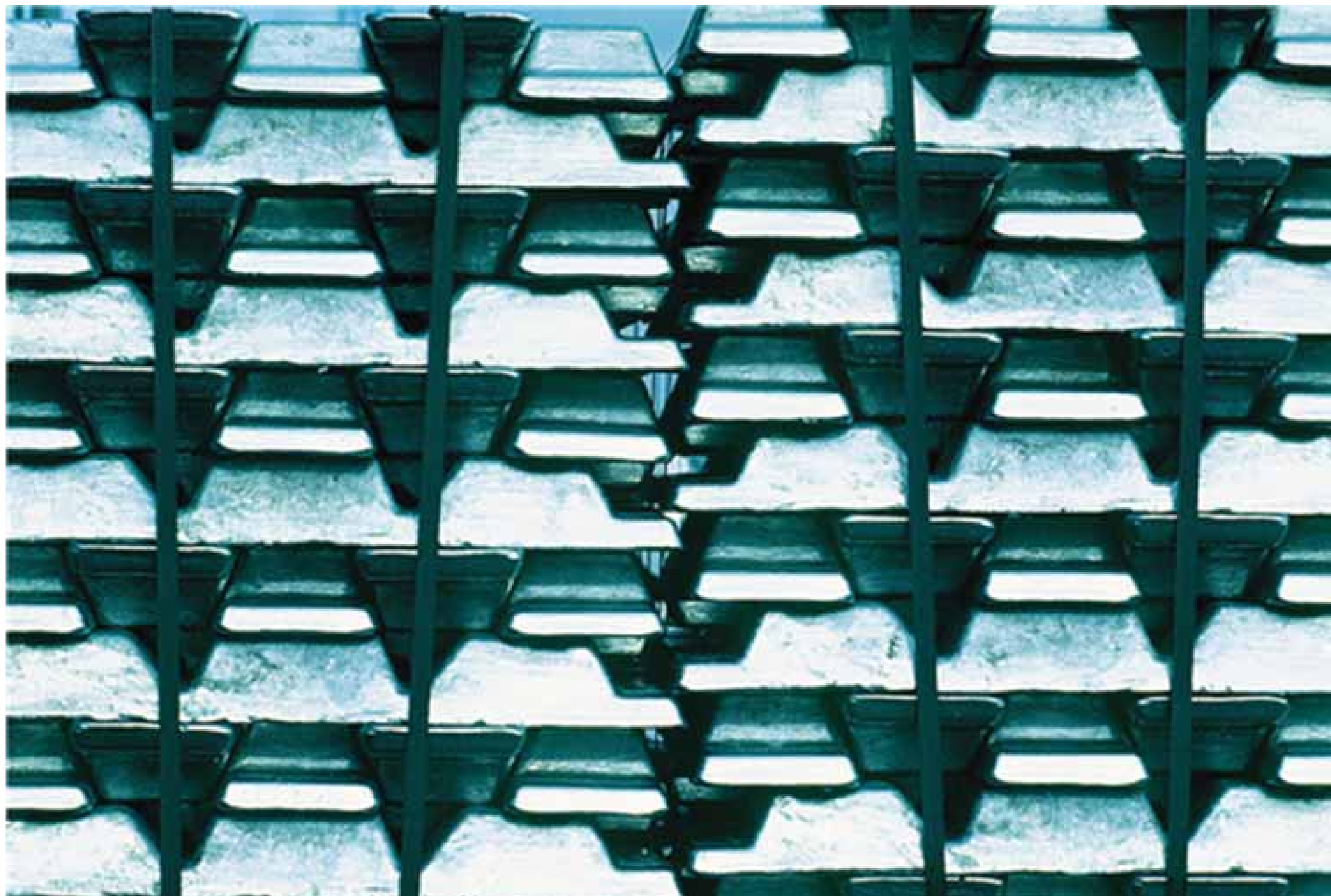
Mercuria disputed delivery through tender of warehouse receipts and refused to pay the approximate $270 million repurchase price.

Mercuria sought a declaration that the BFE notices were not properly served and that Citi had failed in any event to properly deliver the metal.

The BFE notices – were they valid?

The court held that the BFE notices were validly served – these notices are common contractual devices in commodity-repo transactions. Subject to the redelivery issue below, Mercuria was bound to pay the price on the new date. The BFE notice enables the purchaser (usually a bank) to react to events affecting the goods, and manage their risk. The fraud in Qingdao and the uncertainty

The court said that it was common ground that the transactions were all 'true sales', the consequence of which was that the buyer (Citi) took constructive possession of the goods on the initial purchase.



surrounding the goods was an event which warranted the serving of a BFE notice, according to the court.

Was redelivery by tender of warehouse receipts good delivery?

Was Mercuria bound to pay? The court held that Citi could only have contractually tendered “metal of the same brand and quality, and stored in the same location” through either (a) delivery of LME warrants, (b) an acceptable release confirmation (a document issued by the storage operator ‘attorning’ in favour of the owner of the metal) or (c) another “document of title” acceptable to both parties.

The warehouse receipts did not qualify under any of those three headings. Citi therefore failed, in the judge’s view, to redeliver in accordance with the contract. Since there would then be a complete failure of consideration by Citi (entitling Mercuria to the return of any sums paid by way of repurchase), the court would not force Mercuria to pay the repurchase price in the first place. In relation to the one transaction that had come up for completion on 3 June (and completed with payment by Mercuria under reservation of rights), Mercuria was entitled to damages resulting from the failure of Citi to deliver.

Where does risk lie in a repo transaction?

The court said that it was common ground that the transactions were all ‘true sales’,

The dispute surrounds Mercuria’s sale to, and repurchase (repo) from, Citi quantities of aluminium and copper stored in warehouses in the ports of Quingdao and Penglai in China.

the consequence of which was that the buyer (Citi) took constructive possession of the goods on the initial purchase. One of the distinguishing features of a true sale is that title and risk passes to the buyer, even where the underlying intention may be to provide finance to the seller. Citi could not perform a "deemed" delivery in order to transfer that risk back to Mercuria. The court did not, however, rule on any claims Citi might have under parallel services agreements pursuant to which Mercuria agreed to look after the goods physically. The judgment has changed nothing in this regard.

Financial implications for buyer (bank) and seller

The court's judgment does not change the balance in commodity repo transaction in terms of financial risk. English courts have always adopted a holistic approach to assessing whether a repo transaction is truly a sale arrangement, rather than a loan looking at the net effect of the contractual provisions when seen together. In a loan transaction, the bank retains full recourse (normally) against the borrower, who is at risk for any loss of the goods. In a repo transaction, that risk profile is reversed. The in-principle acceptance of risk for any loss during the period of ownership by the buyer (bank) must therefore follow (subject to any extra-contractual arrangements reversing that presumption). The court was not swayed by suggestions made in argument that the repo was essentially a financing arrangement and that risk should be allocated accordingly.

What happens next?

The court has ruled that Mercuria does not have to pay Citi the repurchase price on the accelerated repurchase date, even though the BFE notices were properly served. However, these proceedings dealt only with that narrow issue.

Importantly, the argument on this focused issue proceeded on the assumption that (i) Mercuria gave Citi good title when it sold the goods to them and (ii) the goods had been stolen or had otherwise disappeared after Citi acquired title. Citi argued that even with no metal to redeliver, it could tender warehouse receipts to Mercuria by way of 'deemed delivery'.

The next stage in proceedings looks likely to focus on whether some or all of those assumptions are, in fact, correct, and on claims related to representations given by Mercuria as to the existence/quantity of metal in the warehouses, as well as claims under the services agreement by which Mercuria warranted the safekeeping of the metal.

Properly drafted, the service agreements are designed to reverse the effects of the risk transfer that goes with the repo and gives an independent claim for damages. What the issues and outcomes in this case show is that the drafting of repo agreements and the associated documentation is key to either party preserving its position in a situation such as the parties faced here.

What will be of much greater interest going forward is how the court construes the parties' wider rights and obligations under the master agreements and the parallel services agreement in the next stage of the litigation. Commodity repo agreements, as a method of providing inventory finance, appear to emerge unscathed following this initial skirmish.

Nothing in the judgement warns market participants off commodity-repo transactions as a structure, and while the judge was clear that the concept of 'deemed delivery' of metal was at odds with the commercial and legal nature of a commodity repo, the judgment expressly acknowledges that there may be further litigation either on the basis of breach of warranty as to the title, or under the parallel services agreement relating to care and custody of the metal by Mercuria. There may also be insurance claims and claims against third parties, none of which are precluded by this judgment. ■

The judgment expressly acknowledges that there may be further litigation either on the basis of breach of warranty as to the title, or under the parallel services agreement relating to care and custody of the metal by Mercuria.

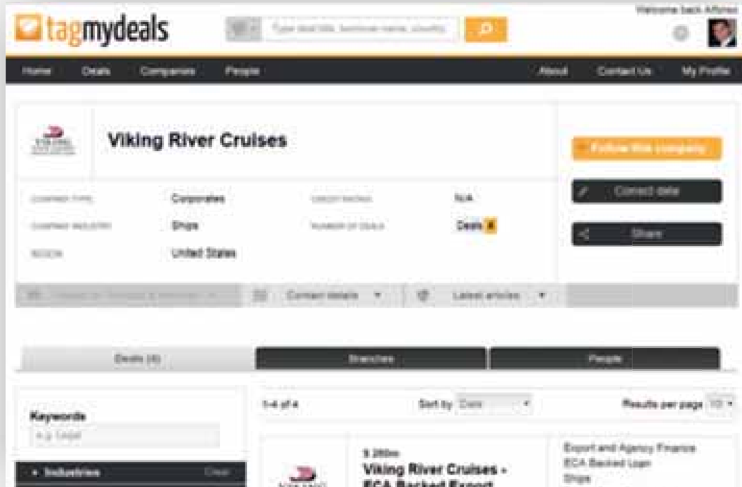
tagmydeals

tagmydeals is free. We couldn't make it cheaper...

...so we've made it better

NEW: follow companies

Track companies. Get notifications when new deals are added

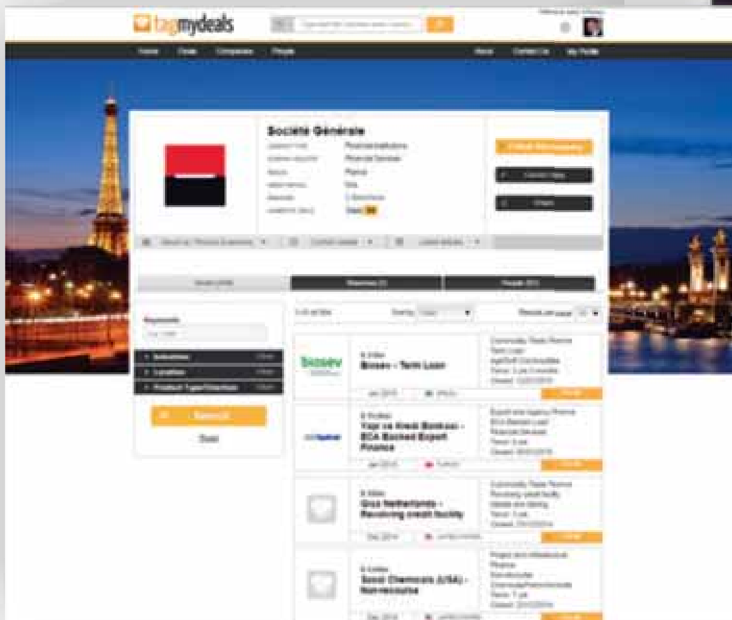


NEW: smart search

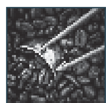
Find the deals, companies and people relevant to you

NEW: profiles

Be more visible. Attract new business



Join us at: www.tagmydeals.com



COMMODITY TRADE FINANCE

EXPORT AND AGENCY FINANCE

PROJECT AND INFRASTRUCTURE FINANCE

TRADE FINANCE GUARANTEES & LOANS

And finally....

Basel III: where do we stand?

Oliver Gordon catches up with some leading figures to discuss whether trade finance is still being unfairly penalised under the Basel III framework.

'UNINTENDED consequences'. Never has a phrase been as overused in the history of the English language as this one has in the trade-finance realm in recent years. Uttered so often at every trade conference under the sun, the term has successfully etched itself into the market's collective consciousness – as if a blood-crazed woodpecker, inexorably hammering into every delegate's prefrontal cortex. But for those who have been camped out in an underground bunker somewhere fearing an impending nuclear apocalypse, the term used in a trade sense refers to what many consider to be the unjust treatment trade finance has received under Basel III – a global regulatory framework on bank capital adequacy, stress testing and market liquidity risk, agreed upon by the Basel Committee on Banking Supervision in 2010-11.

Rightly or wrongly, trade financiers have argued that they have been unfairly caught up on a wave of banker-bashing public sentiment coming out the financial crisis, and swept away by the resultant catch all, ham-fisted attempt by regulators to shore up the industry. 'We had nothing to do with the crisis', they shouted. 'We're the ethical side of finance: real-economy stuff; allowing developing economies to grow their way to prosperity', they appealed. 'You're going to price us out of the banking portfolio and damage global development in the process,' they implored. 'We're nowhere near as risky and speculative as the others: trade always pays', they beseeched.

And the Basel regulators eventually heard their pleas, making amendments to the Accord for trade's sake: first on its One-Year Maturity Floor and Counterparty Credit Risk measures; and then, just last year, on the dreaded Leverage Ratio. So where do we stand now?

TXF caught up with a few senior figures in and around the industry, away from the prying eyes of their wary PR patrollers, and found a vast spectrum of opinion on the matter: 1) Trade finance has never had any justifiable cause for complaint under the Basel regulations; 2) There was a case before the amendments, but not anymore; 3) Trade finance is still getting a raw deal.

"To me, this goes to the desperation and contrivance of a bunch of people – ie the trade finance banking community – who have been asleep for decades, and are just upset their jobs have been made harder through regulation."

NO JUSTIFIABLE CAUSE FOR BETTER TREATMENT

Senior executive at a US asset management firm that invests in trade finance

What's ethical about trade finance?

Senior executive at a US asset management firm that invests in trade finance

There's nothing about being in the trade business that assures one element of ethical behaviour. On the commodities side, you could be deforesting rainforests in emerging markets, or digging and polluting water supplies as you harvest mineral resources. What's ethical about supporting exports out of Sierra Leone when they're pillaging the land using forced labour to harvest diamonds? And on the merchandise finance side, you could be funding child-labour manufactured t-shirts for example. There's nothing about any of those things that would have anything to do with ethics – commerce yes, ethics no. Most banks would have no way of knowing whether those t-shirts were manufactured using slave labour. So the idea that trade, in and of itself, is inherently ethical is nonsense.

Reality catching up

Under previous regulatory frameworks, trade finance enjoyed under-assessed risk based capital. Not because it was less risky, not because it was ethical, but because it wasn't very well understood. So this is just reality catching up. Trade financiers' jobs have been made no harder than somebody trading bonds in a bank, so this isn't unfairly punitive to trade finance versus any other lending business or the bond-trading business.

Take a bank owning an emerging-market bond out of Sierra Leone versus owning trade credit risk out of Sierra Leone: both of those activities involve a certain level of regulatory capital. Under Basel I, the trade finance was treated as a regulatory-capital free transaction for the most part, and the bond was not. That was wrong, so the regulators fixed it.

Show me the data!

The Basel framework has nothing to do with trade finance or any other niche banking line. It's a risk weighted methodology, where banks have to hold more or less capital based on the riskiness of the counterparty. Banks deemed to be sophisticated, are able to use their internal risk weighting for those calculations. Those that are not have to rely on agencies like S&P and Moody's for those assessments.

If a bank has demonstrable data to show the regulator that proves that a certain area of their business is less risky than others, the regulators have the option to further refine the amount of risk-based capital an institution needs to hold against it. That's the core regulation.

It's been debated for 20 years; it got approved almost a decade ago, before the credit crisis. There were parts of the banking industry that paid attention to what was going on from a regulatory standpoint so they could attempt to mitigate the impacts. Other areas of the banks, such as trade finance, did nothing.

The trade financiers don't have data. And if even if they did, I doubt it would prove itself any less risky than any other credit area. The banks have to operate with less leverage, meaning they have to shrink. That's going to affect some of their business divisions: that sucks for the people in those divisions, but it doesn't make the regulation wrong.

A desperate plea from future has-beens

To me, this goes to the desperation and contrivance of a bunch of people – ie the trade finance banking community – who have been asleep for decades, and are just upset their jobs have been made harder through regulation.

Without question, the bank trade finance market will suffer. But if Walmart needs to find financing, they have the resources to go find it. Some middle market company in the Mid-west (USA) will suffer more than Walmart. But non-bank players will eventually move in to provide that financing. World development will not stop because of this. ■

"The idea that trade, in and of itself, is inherently ethical is nonsense."

MAYBE BEFORE, BUT NOT ANYMORE

Leading finance advisor for an international trade body

The regulation is now about right

Leading finance consultant for an international trade body

There are two measures in Basel II and one measure in Basel III that we thought weren't fair to trade finance. The Basel Committee has since amended those, and as such we believe that the regulation is probably about right.

Our argument essentially addressed access to finance in developing markets. We were mainly worried that these measures would result in banks' cost structures being so high on emerging-market transactions that they wouldn't invest in them anymore. But the amendments have kept the initial attraction and favourable regulatory treatment for trade finance, which we think keeps it attractive relative to other forms of finance.

Basel II issues: One-Year Maturity Floor, Counterparty Credit Risk

One of the measures in Basel II was the so-called One-Year Maturity Floor, which was essentially for LCs. It meant that even if you had an LC for 90 days, you had capitalise it for 360 days because, at the time, the information wasn't available as to what the average maturity of these short-term LCs was. So the Basel Committee had taken a very conservative view. That meant that banks would have to put four times more capital against that type of operation than should have actually been required.

To establish the maturity and risk structure of these short-term trade finance instruments, the banks – through the ICC Banking Commission –established a trade credit registry. The Trade Register gathered five years of data for four instruments: confirming LCs, standby LCs, import loans of less than one year, and pre-shipment export loans of less than one year. It gathered over 15 million transactions from 24 of the world's largest banks, and proved that the average tenor of LCs was around 90 days and, secondly, the loss given default of these four instruments was 0.021%. So it proved trade finance was very low-risk. As a result the Basel Committee removed the One-Year Maturity Floor and made it so banks capitalise according to the average historical maturity of the instrument. So that was very positive.

During the course of those discussions, the Basel Committee also agreed to remove the provision that dictated that the counterparty credit risk could not be better than the country risk. In trade very often the counterparty pays, and the payments record for the big companies and their banks in risky emerging markets is often excellent and far better than the rating of their sovereigns. By removing the stipulation and allowing banks to rate their counterparties in a fairer way, the amendment had a positive effect on the future provision of trade finance.

Basel III issue: Leverage Ratio

The last thing discussed with the Basel Committee related to the Leverage Ratio from Basel III. The capitalisation for short-term trade finance, particularly for LCs, tends to be better than for any other asset. That was already granted under Basel I. But the leverage ratio is, in fact, a capitalisation over the capital ratio, particularly for off-balance sheet items such as LCs, banks acceptances etc.

"Of course people may be grumbling about the fact that some trade assets aren't favourably treated but, most importantly, simple short-term trade assets are getting just treatment again. But on-balance sheet lending for trade has no reason to be treated differently than any other on-balance sheet item. Here it's just outright lending."

"I would hope that, as there is a greater and greater realisation that it is world trade that suffers from banks pulling out of trade finance, the regulators will kick into action to ameliorate that. But let's hope it's not too late."

The initially favourable treatment that was granted under Basel I, which is that you take 20% of the face-value for capitalisation, was therefore basically cancelled by the Leverage Ratio – meaning every single asset off the balance sheet had to face a 100% leverage ratio. The Committee said the Leverage Ratio was there to prevent an off-balance sheet asset being used for leverage. But the trade-finance community proved that those assets weren't being used to leverage balance sheets, so in the end the Basel Committee announced in early-2014 that, for trade assets only, the ratio would be reduced to the level of capitalisation, ie 20%. That was another very positive development.

No case for on-balance sheet trade assets

Of course people may be grumbling about the fact that some trade assets aren't favourably treated but, most importantly, simple short-term trade assets are getting just treatment again.

But on-balance sheet lending for trade has no reason to be treated differently than any other on-balance sheet item. Here it's just outright lending. And there's no indication that it's better than other forms of lending: the long-term trade guys haven't provided the data to prove that.

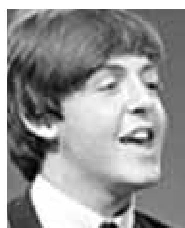
Some at the ICC were asking for trade to be put in its own special category under the Basel regulations. But the problem with that is that, firstly, it's very hard to prove the case for on-balance sheet trade and, secondly, if you make a substantial carve out in the regulation, everyone will start calling every asset trade in order to benefit from the better treatment.

Besides, let's not forget that we needed to bolster our financial system; that's what these regulations are for. And the trade people will ultimately benefit from that safer system. ■

YOU'RE BOTH MAD! THIS IS AN EGREGIOUS MISCARRIAGE OF JUSTICE...

Head of the trade & export finance division of a leading international law firm

Regulators didn't understand trade finance



Head of the trade & export finance division of an international law firm

I go back to Basel II for where things go wrong for the treatment of trade finance. The commodity finance bankers simply took the view that what they do is safe, losses are very safe and therefore they didn't need to do anything. But the regulators didn't understand the business. They understood project finance and the risks involved, and got comfortable with it, and somewhat later they did the same for short-term trade finance. But in the process, the regulators came to the opinion that trade finance is safe if it's short-term, but it isn't if it's any longer. And indeed, regulators started saying that trade finance is inherently risky; that you can launder money through it, finance dual-purpose goods, and so on.

Amendments made little difference

How much business in the market is done by LC? It's a relatively small percentage. I'm not saying that they didn't address something but the vast majority of trade finance these days is done on open account, in which you don't use LCs. In fact, you use receivables, because the bank can assess the credit risk of the buyer and therefore don't need an LC.

They're good, safe transactions

Trade finance had nothing to do with the financial crisis. They're commercial not

investment bankers. This is banking, not speculation.

If you forever say that the only safe trade finance is self-liquidating, and you've got to know today that you've got the means of liquidating, then you can't do very many deals. If, however, you get to a point of saying that self-liquidating means that as long as you keep the transaction going, you'll get your money back, then you start seeing how trade finance transactions are safe and secure. You can't have an SPV because invariably you have a producer who may want to do other things. But if you make sure the producer is financed properly, so it's got the money to continue to produce, and the commodity goes through the genuine supply chain, then you've got good transactions.

Trade needs financing, particularly in emerging markets

Genuine trade needs finance. And the best people to provide that finance are banks. Emerging markets need the finance and banks should be allowed to do it. Therefore trade finance needs better treatment under the regulations. When banks look to finance a producer in an emerging market, the regulations don't provide anything like the capital relief needed. In fact, they provide no capital relief, even though you can trace the transaction from production, through storage, transportation and purchase. This is going to harm those producers as well as the bank.

Many of the economists think there'll be a huge shortfall in trade, which will eventually have to be dealt with. But why can't we do something now. In some ways it's a bit like global warming: it's all too far in the future for anyone to deal with properly, but one day we'll have it and we won't be able to reverse it.

Everyone believes that the best thing to do for emerging markets is not aid but assistance to make them more productive. The more productive they are, the more money they create, the more they buy manufactured goods, the more they contribute to the world economy.

These regulations take away the incentive of banks to look at new emerging markets and create innovative structures to do that. So there won't be any new borrowers in those markets. Think about 23 years ago, Ghana Cocoa Board was a new borrower – look at it now.

Non-bank players can't provide enough liquidity

There isn't enough money on the non-bank side. We act for banks, non-banks and funds. Those non-banks are doing well because they don't have to worry about risk capital. But they don't represent a huge amount of money. The problem is there's not a lot of funds doing this business, as they can't get comfortable with the performance risk, which banks historically have been very adept at doing.

The problem for banks at the moment is that the risk they have to deal with is reputational risk. And, in many ways, that's what's stopping them doing trade finance, because the return is not that high compared to the risk of being fined.

And if non-banks were to take over from the banks, there would eventually be a need to regulate non-banks. At the moment, non-banks, because their compliance procedures aren't really good enough, are financing dual-use goods, which the banks are better able to avoid.

Reward safe structures

I'd like to see good structures get better treatment, so we at least start catching some more transactions. The banks need to put new processes in place, and prove to the regulators that they are working, and then we can start talking about better structures in exchange for better risk weighting.

I would hope that, as there is a greater and greater realisation that it is world trade that suffers from banks pulling out of trade finance, the regulators will kick into action to ameliorate that. But let's hope it's not too late. ■

WHAT DO *YOU* THINK?

So there you have it: the three sides of this seemingly-interminable argument. All with valid points, but to what degree? One thing for sure, though, is we have far from exiled the dreaded 'unintended consequences' from the trade lexicon. But what's your take? Why not visit the story on www.txfnews.com and vote for your favourite of the three viewpoints?

Genuine trade needs finance. And the best people to provide that finance are banks. Emerging markets need the finance and banks should be allowed to do it.

CREDITS 12 & 13 11.15

LIVES ♥ ♥ ♥

TXF TRADE & TREASURY 2015

THIS IS A GAME-CHANGING TIME FOR TRADE. JOIN OTHER INDUSTRY PLAYERS AT THIS CORPORATE-CENTRIC EVENT FOR TIPS ON HOW TO WIN

Price: £1499
For all earlybird and group discounts please contact Abby.Smith@txfmedia.com

To book your place
Visit www.txfnews.com
Call us on +44(0)203 735 5180
Email lucy.morris@txfmedia.com

PARTNER

COCKTAIL SPONSOR

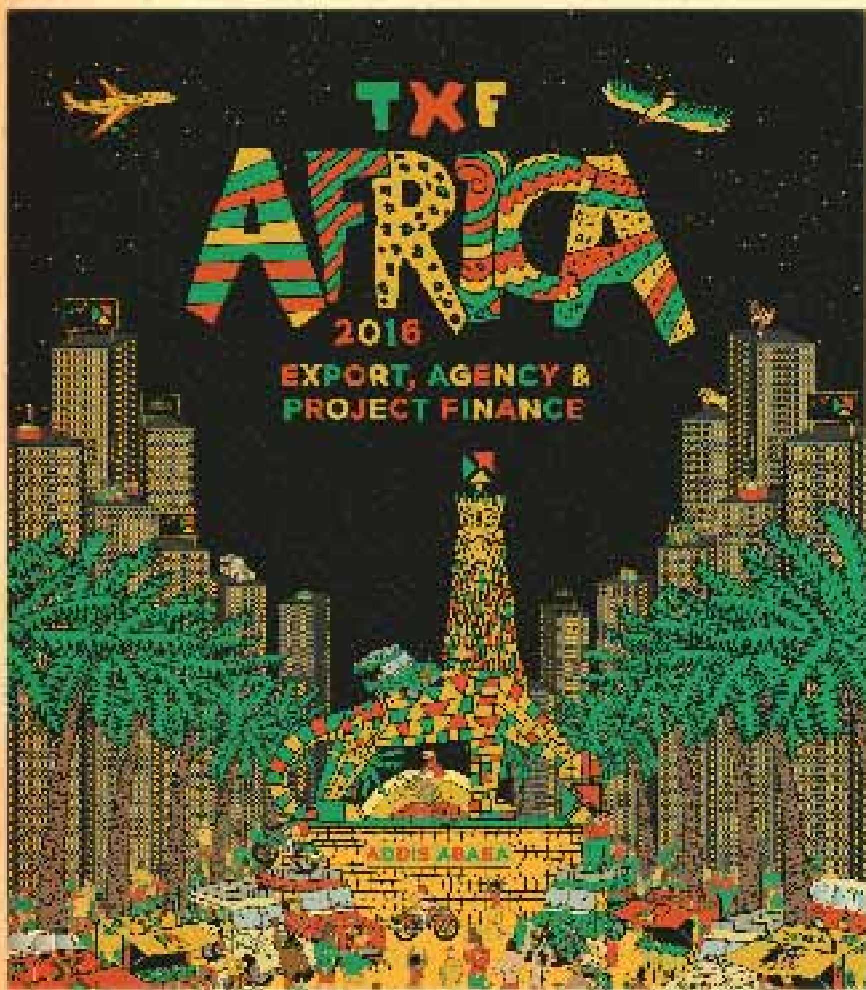
SUPPORTERS

Hold the Back Page

WHAT NEXT FOR TXF?

View our latest industry data reports powered by information from tagmydeals

Download our latest industry outlook data reports, "Commodity finance H1 2015", "Export finance H1 2015", and "Africa: The last 12 months". You can also sign up to tagmydeals, the de facto source for structured trade and export finance deals, with over 3000 transactions online, all available free of charge. Tagmydeals allows businesses to display their expertise online, seek out new business partners and identify new markets...What are you waiting for? sign up today!



Dates for your diary

EVENTS IN 2015/16

TXF GERMANY 2015: EXPORT FINANCE 29TH SEPTEMBER, AKA BANK BUILDING, FRANKFURT

TXF ASIA 2015: EXPORT, AGENCY AND PROJECT FINANCE 28TH AND 29TH OCTOBER, W HOTEL, HONG KONG

TXF TRADE AND TREASURY 2015 12TH AND 13TH NOVEMBER, MESSETURM, FRANKFURT

TXF TRADE AND TREASURY ASIA 23RD AND 24TH FEBRUARY 2016, SINGAPORE

TXF AFRICA 2016: EXPORT, AGENCY AND PROJECT FINANCE 25TH AND 26TH FEBRUARY, SHERATON HOTEL, ADDIS ABABA

Grab your copy of the Berne Union Yearbook 2015

The most complete and respected global guide to export credit, available now at all good stockists.

Register at txfnews.com and get your free copy today

Look out for the next edition of

The TXF Chronicle

...coming in 2016