BAFT-IFSA

April 17, 2013

His Excellency Anton Germanovich Siluanov
Minister of Finance
Ministry of Finance of the Russian Federation
9, Iljinka
Moscow, 103097, Russian Federation

Dear Minister Siluanov:

BAFT-IFSA is an international financial services trade association whose membership includes a broad range of financial institutions throughout the global community. As a worldwide forum for analysis, discussion, and advocacy in international financial services, BAFT-IFSA member banks have a high interest in preserving the safety and soundness of the global financial system.

BAFT-IFSA supports policies that aim to strengthen the resilience of the financial services sector, as promulgated by the G-20. We remain concerned however about the unintended consequences of the regulatory treatment of trade finance instruments under the Basel framework. The framework does not reflect the risk profile of trade finance products and does not take into account the adverse effects this will have on global trade and growth[1].

Global trade relies upon accessible financing for trade transactions. Trade finance is a low risk, short-term transaction that assists customers with their import and export requirements. Disproportionate regulatory treatment for trade finance will increase the cost and/or reduce the availability of such financing and adversely impact economic development. Global recovery rests largely on the shoulders of emerging markets and small- and medium-size enterprises (SME's), however; the Basel framework has the potential to harm these market segments the most.

In that regard, we applaud the European Union (EU) for recognizing the importance of trade finance in its implementation of Basel III through Capital Requirements Directive IV (CRD IV/CRR)[2]. The EU has taken significant steps to alleviate the regulatory burden for trade finance and to ensure it remains affordable and available to the end-user importer/exporter[3]. The positive amendments concluded by the EU on capital, leverage and liquidity recognize the intrinsically safe nature of trade finance and its importance to the real economy.

We respectfully urge the G-20 and the Basel Committee to consider the EU changes to Basel III requirements impacting trade finance and to recommend that these changes are applied across all jurisdictions of the Basel Committee during implementation. This will ensure adequate and affordable trade credit is available to support meaningful and sustained economic growth.

Very truly yours,

Tod R. Burwell

Tod R. Burwell
President and Chief Executive Officer

CC: G-20 Finance Ministers and Central Bank Governors

[1] BAFT-IFSA Basel III Summary: http://www.baft-ifsa.com/eweb/docs/BaselTalkingPoints20120101Final.pdf
[2] European Parliament: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+20130416+SIT-03+DOC+WORD+V0//EN&language=EN
[3] Please see Appendix 1 to this letter.


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## Appendix 1

### Capital Requirements Directive IV Trade Finance Provisions

The industry is concerned about the effect of Basel II and Basel III on trade finance. Capital Requirements Directive IV (CRDIV/CRR) implements Basel III in the European Union in a way that alleviates the regulatory burden for trade finance and helps ensure its affordability and availability to the end-user importer/exporter. These positive amendments to Basel III should be harmonized across all jurisdictions of the Basel Committee.

**Key Recommendation: Adopt CRD IV/CRR Trade Finance Provisions under the Basel Framework**

a. Trade Finance Definition: CRD IV/CRR defines trade finance and sets out the characteristics of products which will fall within this definition. This explicit definition gives clarity in identifying trade finance products and their link to real economy transactions. (Article 4 – Para 1 – point 55 a)

b. Maturity: CRD IV/CRR amends the treatment of trade finance instruments so that actual maturity will always be used for these exposures. EU implementation creates greater market certainty by linking this maturity floor waiver to a recital definition of self-liquidating, short-term trade financing transactions that will use actual maturity calculations. (Article 158 Para 3 (2) (b)) and (Article 4 – Para 1 – point 55 a)

c. Leverage: CRD IV/CRR recognizes that medium/low risk and medium risk off-balance sheet trade finance instruments should carry a 20% and 50% Credit Conversion Factor (CCF) respectively under the Basel III leverage ratio calculation. CRD IV/CRR also reduces the CCF factor applied to non-financial guarantees and non-financial stand-by guarantees used in international trade transactions. This will help ensure banks' continued ability to provide this important financing to customers. (Article 416 Para 8 b and ba) and (Annex 1)

d. Liquidity Inflows: CRD IV/CRR states that monies due over the next 30 days from self-liquidating short-term trade financing transactions, import and export letters of credit and similar transactions with a residual maturity of up to one year, shall be taken into account in full as inflows for the purposes of the calculation of the Liquidity Coverage Ratio (LCR). This change further recognizes the nature of trade finance and its importance to global trade. (Article 413, Para 2 (aa))

e. Liquidity Outflows: CRD IV/CRR proposes that institutions shall regularly assess the likelihood and potential volume of liquidity outflows over 30 days and the maximum amount that can be drawn may be assessed net of liquidity requirements for trade finance. CRD IV/CRR also states that an outflow rate up to 5% may be applied for trade finance off-balance sheet related products in the calculation of the LCR. As with the inflows provision, this is recognition of the intrinsically safe nature of trade finance exposures. (Article 408 – Para 2) and (Article 412 – Para 1)

**Conclusion:** CRD IV/CRR recognizes the criticality of trade finance to companies around the world and will help to ensure their ability to engage in international trade. These amendments respect the goals of Basel III to create a stronger banking sector - without damaging lending to the real economy - and should be adopted by the full Basel Committee.

For further information, please contact Matthew L. Ekberg at mekberg@baft-ifsa.com