

# **Joint Industry Communication**

## **on**

# **International Trade and Capital Requirements Directive IV**

23 May 2012

The Honorable Margrethe Vestager  
Minister for Economic Affairs and the Interior of Denmark  
President of the Economic and Financial Affairs Council (ECOFIN)  
Council of the European Union  
Rue de la Loi 175  
B-1048 Brussels

Dear Madame President:

We are writing to you in the context of the work of the European Commission, the Council of the European Union and the European Parliament on the revision of the European Union capital requirements directive. We respectfully encourage the Council to include amendments for trade finance and export finance in the final legislative package implementing Capital Requirements Directive IV (CRD IV/CRR).

The undersigned organizations represent a broad range of financial institutions, manufacturing and services companies, and individuals that provide important services throughout the European Union and around the globe. We support policies that aim to strengthen the resilience of the financial services sector. We remain, however, particularly concerned about the unintended consequences of the regulatory treatment of trade finance and export finance instruments under CRD IV/CRR. The proposed legislation does not reflect the risk profile of these instruments, nor does it take into account the adverse effects of the recommended changes on European trade and growth in the real economy.

International trade relies upon accessible financing for trade transactions. Trade finance instruments are low risk, short-term assets that assist customers with their import and export requirements. A disproportionate regulatory burden for trade finance will increase the cost and/or reduce the availability of such financing and adversely affect economic growth. Small and medium-size enterprises (SMEs) have a crucial role to play in driving economic recovery and they rely heavily on trade finance. CRD IV/CRR, in this context however, has the potential to harm these important firms the most.

The European Parliament identified and addressed many of these issues in their “Trade Finance Package”. These amendments were included in the Parliament’s report on CRD IV/CRR, which was approved on 14 May 2012 in the Economic and Monetary Affairs Committee. We respectfully encourage you to give your favorable attention to the the Parliamentary “Trade Finance Package” and to direct the Council negotiations along the lines described therein. The package, which is outlined in the appendix of this letter, amends CRD IV/CRR in a way that recognizes the importance of trade finance to European companies and will help to ensure their ability to engage in international trade.

We further encourage you to consider revisions that ensure export finance is also properly treated under the regulation. Medium- and long-term export credit provides borrowers with a stable source of funding for projects longer than one year in tenor, backed in large part by Export Credit Agencies (ECAs). Including recognition for these important products will also promote growth in European markets.

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Revisions to trade finance and export finance rules under CRD IV/CRR will aid in the goal of creating a stronger banking sector, without damaging lending to the real economy. We respectfully encourage the Council to include amendments for trade finance and export finance in the final legislative package implementing CRD IV/CRR.

Very truly yours,



Robert R. Davis  
Chief Executive Officer (Acting)  
BAFT-IFSA



Philippe de Buck  
Director General  
BUSINESSEUROPE



Guido Ravoet  
Chief Executive  
European Banking Federation



Arnaldo Abruzzini  
Secretary General  
EUROCHAMBRES



Pascal Kerneis  
Managing Director  
European Services Forum

CC:  
Ministers of the Economic and Financial Affairs Council (ECOFIN)  
Council of the European Union

**Signatory Associations:**

**BAFT-IFSA**

BAFT-IFSA is an international financial services trade association whose membership includes a broad range of financial institutions throughout the global financial community. As a worldwide forum for analysis, discussion, and advocacy in international financial services, BAFT-IFSA member banks provide leadership to build consensus in preserving the safe and efficient conduct of the financial system worldwide.

**BUSINESSEUROPE**

BUSINESSEUROPE represents 41 industrial and employers federations in 35 European Countries, representing more than 20 million European companies.

**European Banking Federation**

Set up in 1960, the European Banking Federation is the voice of the European banking sector (European Union & European Free Trade Association countries). The EBF represents the interests of some 5000 European banks: large and small, wholesale and retail, local and cross-border financial institutions. The EBF is committed to supporting EU policies to promote the single market in financial services in general and in banking activities in particular. It advocates free and fair competition in the EU and world markets and supports the banks' efforts to increase their efficiency and competitiveness. The EBF members include the following national banking associations: Austria, Belgium Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lichtenstein, Lithuania, Luxembourg, Malta, Norway, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the Netherlands, and the United Kingdom.

**EUROCHAMBRES**

EUROCHAMBRES is the Brussels-based Association of European Chambers of Commerce and Industry. EUROCHAMBRES represents over 20 million member enterprises in Europe through 47 members (45 national associations of Chambers of Commerce and Industry and two transnational Chamber Organisations) and a European network of 2000 regional and local Chambers. More than 93% of these enterprises are Small and Medium Enterprises (SMEs). Chamber members employ over 120 million employees. EUROCHAMBRES is the sole European body that serves the general interests of European business – due to the multisectoral membership of Chambers – and the only one so close to business, as a result of the Chambers' regional focus.

**European Services Forum**

The European Services Forum (ESF) is a private sector trade association that represents the interests of the European services industry in International Trade Negotiations in Services. It comprises major European service companies at the CEO level and European service sector federations covering service sectors such as financial services, tourism, telecommunications, maritime transport, business and professional services, distribution, postal and express delivery, IT services, environmental services and the audio-visual industry.

## Appendix

### **Capital Requirements Directive IV - European Parliament Trade Finance Package**

The industry is concerned about the effect of Basel II and Basel III on trade finance. Capital Requirements Directive IV (CRD IV/CRR) proposes to implement Basel III in a way that could significantly limit the availability of trade finance in Europe.

#### **Background: The Importance of Trade Finance**

Global trade relies upon accessible financing for trade transactions. Trade financing assists customers with their import and export requirements, by providing import/export financing and trade risk mitigation. Trade finance, as a transaction banking product, is a core banking business serving the real economy. Industry estimates indicate that pricing for trade finance products could increase by 18-40% under the European Commission's CRD IV/CRR proposals.

#### **Key Recommendation: Support European Parliament "Trade Finance Package" Amendments to CRD IV/CRR**

The European Parliament's report on CRD IV/CRR<sup>1</sup>, recommends amending the Commission's proposal in a way that favorably impacts the treatment of trade finance. The parliamentary amendments form a 'Trade Finance Package' that helps to ensure that the regulatory treatment of trade finance corresponds to the nature of the instrument as a driver of economic growth. The following parliamentary provisions should be supported and included in the final implementing legislation for CRD IV/CRR:

- a. Trade Finance Description: The trade finance package includes an important recital recognizing the nature of trade finance. It emphasizes that trade finance is connected to the exchange of goods and services through financial products of fixed short-term maturity (Article 4 – Para 1 – point 55 a)
- b. Maturity: The Commission proposal harmonizes the treatment of certain trade finance instruments so that always actual maturity will be used for these exposures. The trade finance package creates greater market certainty by specifying the types of self-liquidating, short-term trade financing transactions that will use actual maturity calculations. (Article 158 Para 3 (2) (b))
- c. Leverage: Under the leverage ratio, the Commission proposes a credit conversion factor (CCF) for trade finance of 100%, which would increase the cost of providing trade finance. The trade finance package amends the proposal by recognizing that medium/low risk and medium risk trade finance instruments should carry a 20% and 50% CCF respectively. This will help ensure banks continued ability to provide this important financing to customers (Article 416 – Para 8 – point a and Annex 1 a)
- d. Liquidity Inflows: The Commission proposes that liquidity inflows shall be measured over 30 days and shall comprise only certain types of inflows. The trade finance package 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. This change further recognizes the nature of trade finance and its importance to global trade. (Article 413, Para 2 (a))
- e. Liquidity Outflows: The Commission proposes that institutions shall regularly assess the likelihood and potential volume of liquidity outflows over 30 days. The trade finance package amends this to reflect the maximum amount that can be drawn may be assessed net of liquidity requirements for trade finance. As with inflows, this is recognition of the intrinsically safe nature of trade finance exposures. (Article 408 – paragraph 2 – Subpara 1 and Article 412 – Para 1)

**Conclusion:** The parliamentary "Trade Finance Package" that amends CRD IV/CRR recognizes the criticality of trade finance to European companies and will help to ensure their ability to engage in international trade. The amendments respect the goals of CRD IV/CRR to create a stronger banking sector, without damaging lending to the real economy. These provisions should form part of the final implementing regulation.

For further information, please contact Matthew L. Ekberg, BAFT-IFSA, at [mekberg@baft-ifs.com](mailto:mekberg@baft-ifs.com)

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<sup>1</sup> European Parliament: Report of the Economic and Monetary Affairs Committee on CRDIV/CRR ; 14 May 2012