Commissioner Barnier
European Commissioner for Internal Market and Services
European Commission
BERL 10/034
B - 1049 Brussels

(by email)

16 July 2012

Dear Commissioner Barnier,

The Anglo-French Committee of the International Regulatory Strategy Group and Paris Europlace would like to set out its support for amendments to CRD4 proposed by ECON, which will positively assist the European economy by reflecting a more appropriate treatment of trade finance. We would be grateful if you could also reflect this in your engagement in the trilogue discussions on these issues. We attach a more detailed note of the individual provisions in the annex.

International 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, and will assist the European economy in returning to growth. The low risk and short-tenor nature has been fully evidenced by the International Chamber of Commerce's Banking Commission reports, the most recent of which was published in October 2011. 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 (SME's) have a crucial role to play in driving economic recovery.

The European Parliament identified and addressed many of these issues, which are included in the report on CRD4/ CRR by Othmar Karas MEP, approved unanimously in the Economic and Monetary Affairs Committee on 14 May 2012.

In summary, the positive steps taken by ECON are:

- **Trade Finance description** - there is an important recital recognising the nature of trade finance. It emphasises that trade finance is connected to the exchange of goods and services through financial products of fixed short-term maturity.

- **Maturity** - the Commission proposal harmonises the treatment of certain trade finance instruments so that actual maturity will always be used for these exposures. The Karas report creates greater market certainty by specifying the types of self-liquidating, short-term trade financing transactions that will use actual maturity calculations.

- **Leverage** - the Commission proposes a credit conversion factor (CCF) for trade finance of 100%, which would increase the cost of providing trade finance. The Karas report amends the proposal by recognising 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.

- **Liquidity inflows** - the Commission proposes that liquidity inflows shall be measured over 30 days and shall comprise only certain types of inflows. The Karas report 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.

- **Liquidity outflows** - the Commission proposes that institutions shall regularly assess the likelihood and potential volume of liquidity outflows over 30 days. The Karas report 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.

Should you require any further information or clarification of the points raised in this letter, we would be happy to discuss this further and we may be contacted via Elizabeth.gillam@cityoflondon.gov.uk.

Yours sincerely,

André-François Villeneuve

André Villeneuve
Chairman International Regulatory Strategy Group

V. Levy-Garboua

Vivien Levy-Garboua
Chairman Steering Group of Paris Europlace

ANNEX

Capital Requirements Directive IV - European Parliament Trade Finance Package

There is justifiable concern about the disproportionate impact of Basel II and Basel III on trade finance, in terms of the capital charges and the upward pressure that this will put on the cost of these services. Capital Requirements Directive IV (CRD IV) presents an opportunity to implement Basel III in a way that would limit the adverse effect on the financing of international trade in Europe, and between Europe and the rest of the world.

Background: The Importance of International Finance

International 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. In June 2012, the World Bank expressed its preoccupation as the "Banking-sector deleveraging mainly for European banks is cutting into growth and developing country capital flows"

Trade finance, as transaction banking products mainly consists of LCs, guarantees and Forfaiting and is a short term business. It 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 proposals.

Export Finance with the support of ECAs (Export Credit Agencies) is used to finance imported capital goods over longer terms.

Key Recommendation 1: Support Parliamentary Amendments to CRD IV Trade Finance Provisions

The Parliamentary Rapporteur's report on CRD IV[1], recommends amending the Commission's proposal in a way that favorably impacts the treatment of trade finance. Further parliamentary amendments tabled on 5 March 2012[2] enhance the Rapporteur's proposals and 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 amendments should be supported and included in the final implementing legislation for CRD IV:

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 (March 2012 Amendment 254, 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. (Rapporteur's Amendment 56: 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 (March 2012 Amendment 1286, Article 416 – Para 8 – point a and Amendment 1637, 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

[1] European Parliament: http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-%2f%2fEP%2f%2fNONSGML%2bCOMPARL%2bPE-478.506%2b01%2bDOC%2bPDF%2bV0%2f%2fEN

[2] European Parliament: http://www.europarl.europa.eu/committees/en/econ/documents-search.html?linkedDocument=true&ufolderComCode=ECON&ufolderLegId=7&ufolderId=07784&urefProcYear=&urefProcNum=&urefProcCode=#sidesForm

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. (Rapporteur's Amendment 89, 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. (March 2012 Amendment 1108 Article 408 – paragraph 2 – Subparagraph 1 and Amendment 1169 Article 412 – Para 1)

Key Recommendation 2: Support Parliamentary Amendments to CRD IV Export Finance Provisions

The regulatory treatment of export finance should correspond to the nature of the instrument as a driver of economic growth. The following amendments should be supported and included in the final implementing legislation for CRD IV:

a. Export Finance Description: Export Finance is mentioned in some articles of the CRD 4 like article 481 as Financing supported by Official Export Credit Agencies. It might be clearer to include this description in Recital xx just after the one of Trade Finance, emphasizing that export finance is connected to the exchange of goods and services through financial products officially supported by Member States

b. LCR Outflows: The Council proposes to include in the outflows the undrawn portion of loans which might be drawn during the next 30 days and not the whole undrawn amount (which reflects the predictable way export loans are used)

c. LCR Inflows: like mortgages, export loans cannot be drawn again once they are reimbursed. So it would make sense to compute repayment installments for 95% or 100% of their amount and not 50% as proposed today as if it was a credit line

d. LCR: we welcome the proposal to consider assets eligible at a discount window at a Central Bank as HQLA – High Quality Liquid Assets

e. Leverage: as mentioned in article 481, the need to reassess the impact of the Leverage ratio on Export Finance is clear as its unintended consequences might be highly detrimental to this activity and then to exports when global growth needs them.

Conclusion: The parliamentary trade finance package that amends CRD IV recognizes the criticality of trade finance and Export Finance to European companies and will help to ensure their ability to engage in international trade. The amendments respect the goals of CRD IV to create a stronger banking sector, without damaging lending to the real economy.