



## TFAC WORKING MEETING NOTES

June 8, 2017 – 10:00am to 4:00pm (ET)

United States Department of Commerce – Conference Room # 58022

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### Welcome, Roll Call, Certification Previous Meeting Minutes

- Roll Call: (1) Chris Bozek; (2) Lauren Wilk; (3) Bill Cummins<sup>1</sup>; (4) Adam Dener; (5) Stacey Facter; (6) Tim Gaul; (7) David Herer; (8) Karsten Herrmann; (9) Kevin Klowden; (10) Todd McCracken; (11) Gary Mendell; (12) Sergio Rodriguera; (13) Lou Tierno; (14) Sam Hodges.
- The May 22, 2017, meeting minutes were accepted and approved.

### TFAC Member Overview Roundtable

- TFAC members in attendance provided a brief summary of their background, trade finance related expertise, and areas of interest to support the work of the Council.
- It was suggested to share member's affiliations with other organizations that may facilitate tapping into the knowledge of those groups as well.
- Paul Thanos and other staff from the Office of Finance & Insurance Industries (OFII) provided a brief summary of their background and office portfolio/coverage.<sup>2</sup>
- A couple of exchanges in this segment, outside of the members' bios are noted below:
  - It was asked of Meridian and Munich Reinsurance of America, to provide information about their sales coverage notional value. The discussion continued onto the high cost of evaluating the risk when purchasing individual receivables.
  - It was asked of Bank of America Merrill Lynch's notional value on the trade side. Members discussed their perspectives on Regtech and Fintech, in relation to the OCC's proposed Fintech charter, interest and comparisons between FINCEN and India KYC registry, data standardization and how to leverage artificial intelligence (AI), API models.
  - OFII was asked if the Fintech Top Market Report, to be published in 2017, would include an analysis on Regtech. OFII confirmed this topic would not be include this year.<sup>3</sup>

### TFAC Priorities Review – Paul Thanos, Director OFII, ITA

#### *Acting Deputy Assistant Secretary, Services Industries, Alysha Taylor, joined a portion of this dialog*

- Paul Thanos updated members on the political leadership within the Department:
  - Secretary Ross is seen as a close confidant of President Trump, one of the most influential on trade. His importance was demonstrated during the recently concluded 100 day agreement which China – which the Secretary took the lead negotiating.

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<sup>1</sup> Via teleconferencing.

<sup>2</sup> See attachment, for Paul Thanos' bio.

<sup>3</sup> For additional information on Commerce, International Trade Administration (ITA) Top Market Reports, see <https://trade.gov/topmarkets/>.



- Based on OFII meetings with the Secretary and what has been publicly disseminated, Ross believes that trade finance is a key ingredient to support U.S. exports, particularly those from small and medium-sized businesses.
- A few other people within the Department for awareness: (1) Eric Branstad, serving as senior White House Advisor at the Secretary's office; (2) Earl Comstock, senior advisor to the Secretary and Director of the Office of Policy and Strategic Planning (with whom OFII has been interacting on industry matters); (3) Gilbert Kaplan, recently formally nominated for Under Secretary (U/S) of ITA, formerly at King and Spalding; (4) Israel Hernandez, joined the Department as the Deputy Chief of Staff to Secretary Ross while also performing the duties of the U/S for ITA until Mr. Kaplan is confirmed by the Senate. Mr. Hernandez served previously as Commercial Service Director General under the George W. Bush Administration; (5) the President announced his intent to nominate Elizabeth Erin Walsh to serve as Assistant Secretary and Director General of ITA's Foreign Commercial Service unit. OFII works closely with this unit in ITA, as it encompasses the US Export Assistance Centers and commercial officers serving at foreign posts; (6) Ian Steff as Deputy Assistant Secretary for Manufacturing.
- A member asked if the position of "Senior Advisor" required Congress confirmation. It was explained that it is not required for these positions.
- Trump Administration Priorities:
  - Trade deficits and regulation on business.
  - Rebuilding the US Manufacturing base.
  - Commerce has been tasked with drafting reports analyzing manufacturing trade deficits with countries where the deficit is over \$10 billion. The results are publicly available and can be searched by country, sector, or barrier type. This report will be the foundation for impending negotiations in this area.
  - Pursue aggressive bilateral negotiations; NAFTA received the most attention so far. Commerce has done extensive outreach to ensure stakeholders' input is included as part of the negotiations. Digital Trade, Regulatory Practices, Services, and SMEs are some topics that may be relevant to the TFAC and which weren't included as part of the old agreement. The comment period will be open through June 12<sup>th</sup>.
  - Other priorities: (1) Rebuilding America's infrastructure; (2) Tax reform: In late April, Secretary Mnuchin and National Economic Council Director Gary Cohn announced the "core principles" of the President's tax reform plan. Many details on tax policy proposals are still unknown; (3) Executive Order calling for a review of the US financial regulatory system. Treasury to issue a series of reports on financial regulation on various segments, including banking. These reports will be an early indicator regarding any Congressional overhaul of the Dodd Frank Bill.
  - Questions: (1) if the trade deficit reports were mainly regulatory. Alysha Taylor clarified these reports were looking for various factors that impact a company's ability to export to a given market, including market structure, price considerations, consumer tastes, trade barriers, etc.; (2) clarification on the interagency process and Commerce's role. Paul Thanos clarified that although Commerce is not a regulatory agency, actively participates in



interagency financial regulation discussions, bilateral or multilateral negotiations/financial chapter, export credits, etc.

- Paul Thanos suggested considering elements of the new Administration such as trade deficits, regional approach (great lakes, US-Mexican border), National Banking charter for Fintech pending decision, etc., as the Council develops their recommendations. Also highlighted Ross' unique role within the Administration and how this may facilitate any interagency implementation.
- On recommendations: (1) Underscored the work already done by the Council; (2) suggested to think about a signature recommendation; (3) described the process, format, and timing for bringing forward recommendations to the Secretary (i.e., a letter with brief description of the issue and supporting analysis, expected impact, stakeholders involved, and steps required for implementation. Also, should be adopted and transmitted to the Secretary as these are developed); (4) No limit on number of recommendations.
- Alysha Taylor suggested to be creative, e.g., a "Hackathon" coordinated between the University of Southern California, Center for Global Supply Management, and the Supply Chain Advisory Committee to bring technology coders and computer programmers in a collaborative environment to develop software solutions and new ideas for sharing data among ports, shippers and other stakeholders. The result, an app/software, included monetary prizes. She also advised that Secretary Ross likes data.
- Member questions/comments: (1) how to prioritize recommendations. Suggested to prioritize based on the Council's mandate, what's actionable within Commerce or the Executive Branch; therefore, other's that include Congress may be categorized as long term; (2) what position or level of authority Secretary Ross has in EXIM's board. OFII's Erik Lenz, explained he is a non-voting ex-officio member, same as USTR. Therefore, not necessarily his prerogative; (3) definition of "digital trade." Commerce officials explained NAFTA did not include an e-commerce or telecommunications chapter. Suggested to review the relevant propositions in TPP and ITAC-8 reports.<sup>4</sup>
- It was requested and agreed that Commerce would share policy updates as these are made available to OFII.

## **Lunch Break**

### **Recommendations Process & Review (started at 1:30pm approx.)**

- It was clarified that although the recommendations spreadsheet listing included subcommittees, this was only to reflect original ideas. However, moving forward it would no longer include such information.
- Trade Finance Training for USEAC Personnel: Presentation conducted by Gary Mendell.
  - There is a gap in education for SME exporters. There are approximately 100 USEACs nationwide and 75 overseas. Staff personnel at these centers need to better understand trade finance. Trade finance comes up too late in discussions with exporters. As an example of the international component in supporting SMEs exports, Gary described the Gold-Key

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<sup>4</sup> See final texts for TPP and ITAC-8 attached.



Program offered by USEACs in collaboration with U.S. Embassy commercial officers overseas. Also, explained the new International Expansion Blueprint Program, which will provide in-depth training to USEACs, and initial conversations with centers that are supportive of TFAC's recommendation on a trade finance module as part of this program.

- Comments/questions: (1) current certification. Basic training covering various aspects of exporting, such as standards, labeling, barriers, etc.; (2) suggested if the implementation should be considered on a regional basis or explore coordination with regional/community banks, to be included in the Regional Domestic Best Practices on Export Coordination recommendation. Stacey Factor briefly described such recommendation; (3) feasibility on obtaining data: number of SMEs talking to USEACs, size of the companies, type of financing needs, etc. Gary suggested he could obtain this information from USEACs he works with. Ericka suggested the USEACs use salesforce to track engagement with companies and results; (4) metrics on states; (5) States vs. metro-cities (e.g., Texas).
- It was agreed to move both ideas, separately, to the next stage.
- Expanding Trade Credit Insurance (TCI) Use by SME US Exporters: Presentation conducted by Karsten Herrmann.
  - Data shows there is global growth in trade credit, but in the U.S. growth is relatively small. In Europe, TCI is required by banks as a condition to lending. This greatly benefits access to lending for SMEs.
  - Comments: (1) consider including it as part of USEACs training; (2) not necessarily lack of awareness, but enterprise risk policy; (3) action should be taken at the national level with banks and Commerce; (4) to connect with banks at the community level, through ABA.
  - Noted that this idea would not be sufficiently material to develop on a standalone basis, but could be bundled as part of a recommendation to incentivize community and regional bank activity. Further discussion to take place.
- Recent consultations with SBA Advocacy Office on SME Research Funds: Presentation conducted by Todd McCracken.
  - Research should be done about the economic impact of adequate financing and its effect on job creation. This cannot be answered with a survey. SBA's office of advocacy is willing to support SME research in this area.
  - Comments: (1) availability of academic research but challenges to identify/quantify companies that are not public; (2) there may be value in understanding the lost opportunity due to denial of credit; (3) perspective of company exporting to 1 market could expand to others; (4) issue of national security. Discussed trusted trader, Census register.
  - It was decided to further develop this idea, maybe as part of community banks, non-bank lenders analysis.
- Getting More Credit to SMEs: Presentation conducted by Sergio Rodriguera and Adam Dener.
  - Discussed page 6, BIS data, banks deleveraging due to regulation. However, cash levels up (banks/corporates offshore).
  - Proposal 1: Tax amnesty on offshore cash provided that the tax savings benefits is lent to SME, providing credit in return of the waiver. Comments: (1) tax reform not in 2017, consider timing for recommendation; (2) buyback profits involving primarily 75 companies; (3) when discussing buyer funded supply-chain with corporates, not interested. More



conservative with domestic cash on reserve, no incentives: (2) market forces impact/less bank charter applications.

- Proposal 2: Incentives for non-banks to invest in SME credit by creating a program to create investment management products to serve as lenders providing SME credit. Comments: (1) why not offering those incentives to banks and non-banks. Banks already have those incentives, maybe not in their economic interest; (2) seen as risk; (3) cost of compliance is real cost, but combination of risk as well.
- Proposal 3: Increase regulatory capital for banks for SME credit if all held on balance sheet. Comments; (1) chokes lending; (2) Fed to pull ability to create more market accepted investment pools to package it. Referenced page 8, increase in SME lending would stimulate GDP growth; (3) logistically, how to envision a recommendation to Secretary Ross. Commerce and Treasury involvement. Oversight has to sit somewhere. Accounting issue – all activity has to be within 360days.
- Proposal 4: Limit tax deductions and stock buy backs for companies holding more than 10% of their cash overseas.
- General comments: (1) Suggested folding proposal 4 into 1; proposals 1 and 2 need to be fleshed out, and a debate about Proposal 3 remains. Adam suggested to do an “implementation” discussion; (2) considerations on appropriate timing to share with pertinent NAM members.
- Members were asked to provide feedback by Thursday, June 15, on questions drafted for the Federal Reserve Bank’s survey. The purpose is to provide directional questions for the broader objectives of the survey’s export module.

### **Next Steps, Resources, Project Plan**

- Suggested to do 2 calls (Friday 9 and 16), to discuss pending recommendations. Then, move to one-hour bi-weekly calls, possibly with informal groupings on various work streams.
- Presenters identified for Friday 9: Lauren to brief on EXIM, Tim to discuss EXIM, and Bill presenting on EDC’s bonding program.
- Other topics on spreadsheet, such as credit decision and KYC, to be discussed on Friday 16 call.
- Council membership seats: (1) suggested to have a senior risk person from a bank/regulatory capital (e.g., HSBC, Standard Charter); (2) asked if supply-chain finance is still an area to pursue representation; (3) on standard and data, e.g., Thomson Reuters or Dun & Bradstreet.
- Pending: to discuss/agree on a weekly distribution of articles, documents shared by members. Ericka stated that the use of external platforms for this purpose was accepted by Commerce’ General Counsel, as long as it is only for sharing of information, and not to circulate draft recommendations or other Council materials. Lauren committed to explore opportunities to use her organization’s platform.
- Meeting adjourned.