



TRADE FINANCE ADVISORY COUNCIL

Public Meeting Minutes

Thursday, June 20, 2019 | 1:00 – 3:00pm (ET)

Meeting held via conference call

INTRODUCTIONS - APPROVAL OF MINUTES - WELCOME REMARKS

The Council's Designated Federal Officer (DFO), Ericka Ukrow, opened the meeting and continued to do a roll call.¹

The TFAC Chair, Kevin Klowden, called for the approval of the March public meeting minutes, seconded by members Richard Brent and Dave Shogren.

Acting Deputy Assistant Secretary (DAS) for Services Industries at the U.S. Department of Commerce, John Cooney, provided welcome remarks which recognized the members efforts in putting together the ideas to be presented on the call. Views that he noted will help Commerce prioritize and enhance ongoing activities, but also point out to new strategies that can support our U.S. exporters in getting the finance they need to be able to expand to overseas markets.

Acting DAS Cooney also encouraged Commerce and other agency participants to provide feedback to TFAC members that will prove critical to developing actionable recommendations.

SUCOMMITTEE DRAFT RECOMMENDATION BRIEFINGS²

International Policy Subcommittee

Modernize International Trade Commitments to Allow Insurers to Finance Trade Conducted Through Global Value Chains - Steve Simchak

Proposal Summary:

- For Commerce and other relevant agencies to consider negotiating modernized cross-border trade commitments with future FTA partners where insurers are better able to support international trade conducted by multinational enterprises (MNEs) through global value chains (GVCs). Specifically, cross-border commitments to be expanded beyond insurance for marine, aviation and transportation risks (MAT) to include difference-in-conditions and difference-in-limits (DIC/DIL) insurance, which would cover very sophisticated multiple market-related risks.
- The MAT-only approach reflects an outmoded conception of trade as the full production of a good in one market shipped to another market for sale. The rise of GVCs means that U.S. companies are trading around the world through local operations in multiple markets. Therefore, GVC risks tend to be more sophisticated and larger in volume than what can be purchased at a local market. Modernized insurance commitments will allow

¹ See Attachment #1 for the list of TFAC members and other attendees.

² See Attachment #2 for all subcommittee draft recommendations presented.

insurers to help finance that trade in a more effective way.

- It was also suggested that Commerce initiates dialogue with U.S. State insurance commissioners for their support and input on these types of commitments.

Comments:

- Paul Thanos asked about current views from U.S. State insurance commissioners. Steve conducted initial communications with staff at the National Association of Insurance Commissioners, whom have not expressed support nor concerns yet.
- Alan Beard asked if EXIM would be interested in looking at this type of coverage. Steve expressed interest to explore this. Steve clarified the recommendation relates to export financing for U.S. multinationals, including U.S. services exporters. If included in future FTAs, U.S. could become a hub for writing DIC/DIL globally, therefore, expanding the size of U.S. insurance sector, increase employment and value of investments in the sector.

Financial Technology Subcommittee

Adoption of Technology in Business Transactions - Dominic Capolongo

Proposal Summary:

- Technology developments in the consumer side, aimed to improve the user experience and eliminate the complexity of consumer transactions, are now being applied in the commercial space as the private sector embraces digitization of each component of commercial transactions (e.g., KYC procedures, AML/OFAC checks, documentation processes, etc.). This would benefit SMEs particularly, through increased participation in markets and access to capital.
- Commerce should support the integration of technology into the trade transaction process and become a leading participant of ongoing domestic and global initiatives to develop a coherent framework in which financial-related technologies can grow and be embraced globally.
- Next suggested step: To do a deep analysis of different components where technology is being applied. For TFAC, government and interested industry participants to develop a set of ideas designed based on key U.S. stakeholders' priorities, which could become the nucleus for global standards.

Comments:

- In response to Paul Thanos' inquiry about the type of analysis and specific technologies being suggested, Dominic indicated the intent to identify a unifying set of components from industry research papers, suggested possible key technologies would be blockchain and technologies that meet regulatory documentary processes such as KYC.

Creation of an Open Trade Finance Marketplace - Chapin Flynn

Proposal Summary:

- Current pain points for trade finance constituents: (1) FIs and Fintechs: it's a lucrative business but need access to data, (2) buyers: don't fully understand mechanisms and

benefits of trade finance, have challenges accessing capital, (3) suppliers: need access to working capital, aren't familiar with financing mechanisms, don't invoice large enough amounts to be attractive to certain funding options.

- Proposed creating an open un-biased trade finance market place that would inform buyers and suppliers about trade finance benefits and mechanisms available and offer the opportunity to connect with a fund that can address those needs. The marketplace would also provide FIs and Fintech a source of leads, company data, and healthy competition.
- Next steps: (1) TFAC members to weigh in on how to strengthen the proposal, (2) identify how to proceed on its establishment (government sponsored or partnering with private sector to bring it to market but with influence by Commerce or others), and (3) more robustly defining requirements on how it would operate and how a governing structure would might like.

Comments:

- Michael Fuchs noted that a number of trade finance platforms already exist and asked how this proposal was different. He also suggested to consider the issue of government involvement in singling out a particular platform. Chapin clarified that the marketplace would be open all participants, as opposed to current fee-based consortia platforms. He also explained that having a strong governance structure that included input from the government would create an immediate level of credibility in the marketplace and help driving adoption.
- Craig Weeks suggested that the marketplace could better fit in the supply chain finance side.

Encourage Adoption of the LEI - Madison Spach

Proposal Summary:

- Legal Entity Identifier is a 20-digit alphanumeric code that gives any entity an internationally unique identification number. Commerce should encourage and assist state agencies in adopting LEIs and mapping their existing entity identifiers to LEIs.
- The adoption of a universal system to identify business entities across markets, products and regions is critical. The U.S. government only, uses 50 numerical identification systems with no standard way to map these other than through LEI. Globally the LEI has been increasingly implemented in various jurisdictions, particularly in the EU and Asia (required for any securities transactions in the EU). It helps track entities and achieve transparency, especially in financial transactions.
- Next steps: Commerce to lead advocacy efforts on LEI, reach out to Treasury's office of financial research that worked on LEI fundamentals, the Global LEI foundation, which recently released the protocol for mapping existing data bases into LEI, the Data Foundation and any state agencies already looking at this issue.

Comments:

- In response to Michael Fuchs's question on how the proposal will help reduce barriers for U.S. exporters in markets where LEI registration is required, Madison noted that U.S. SMEs are missing business opportunities due to the increasing number of jurisdictions that require LEIs not only on the financial side of the transaction but also on the vetting

process.

- Michael Fuchs noted it may be outside of Commerce's mandate but could focus on the outreach side.
- Kevin suggested to explore having Commerce advocating at the national level. Also, considering the Asian Development Bank efforts, a strong advocate of LEI adoption.

Public-Private Partnerships Subcommittee Briefing

Enhance the Exportech Program - Daniel Pische

Proposal Summary:

- Exportech is an educational program for SME exporters, administered through NIST and states' MEP network, to prepare them for the international market place offering 3-month sessions on markets, risk, logistics, financing, etc.
- Since the program is offered at the state level, there's some variation from state to state, there are some geographical restrictions and constraints due to limited state resources.
- Proposed to modernize the program to be administered potentially in two ways: (1) as a framework for online cohorts (which would allow for greater reach amongst SMEs and addressing geographical restrictions), and (2) as a supplement to existing in-person cohorts allowing for more detailed modules and effective standardization of the curriculum, localization of content based on unique nature of the individual markets. This also creates opportunities for ongoing education for Exportech graduates or USEAC specialists, developing additional modules with specific topics.
- Next steps: Connect with NIST for input.

Comments:

- Ericka reached out to NIST/shared the draft, pending call for their input.
- Joe Hanley, mid-Atlantic USEAC Director, supported the idea, which he noted goes in line with current ITA efforts country-wide looking at digitizing current outreach events and education activities, in order to have meaningful interactive training that is more accessible to a broader group of clients.

Improve Flow of Exporter/Company Information - Ken Rosenberg

Proposal Summary:

- To identify a better mechanism to share identities of U.S. exporters with State and Federal agencies, as well as private sector associations, who have expertise in trade finance to more efficiently connecting the U.S. exporter to the optimal financial solution.

Comments:

- Joe Hanley noted that the opportunity to share databases across agencies can be a challenge and has come up in the past. However, EXIM and SBA, co-located with USEACs, do a good job in using Salesforce and cooperating with Commerce sharing information about clients.

Export Advantage Program (EAP) - Ken Wengrod

Proposal Summary:

- For ITA to consider scaling up this program developed at the Irvine USEAC, which provides specialized coaching to SMEs by connecting them with public and private sector resources for trade finance and other export requirements in a one-day in-person session.
- The advantage of EAP is that it collaborates with DEC's and private industries, aside of EXIM and SBA for finance resources. Some of these commercial finance entities, mentioned Ken referring to a Commercial Finance Association (CFA) report, have different risk mitigation requirements than banks e.g., and therefore have the ability to offer finance solutions for the exporter that may have been missed. The program requires no additional cost from USEACs.

Comments:

- TPCC's Pat Kirwan asked if the CFA analysis had any regional distinction on how prevalent (or if there's a gap) these types of financing organizations are and their disposition to finance exports. Ken noted that the location where they are domiciled does not necessarily impact the service, a lot relies on the collateral and perception of the company.
- Alan asked if the program could be transitioned into a virtual partnership. Ken noted that the benefit is the one-on-one in-person counseling to solve a specific export (finance) need, which requires information flowing both ways.

Education Subcommittee

Trade Finance Training for USEACs and Other Export Assistance Entities - Gary Mendel

Proposal Summary:

- Direct USEAC staff to discuss early on with clients why trade finance should be an integral part of their export strategy. To educate staff about trade finance fundamentals, the group proposes that ITA form a group of public and private sector practitioners that can either visit USEAC staff on a regional basis, or identify a
- e high-level discussion with USEAC staff, or
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- Propose that trainers for USEACs be formed nominally as a group, comprised from EXIM, SBA, Bank, credit insurance, these group of trainers go to a portion of the country to have this high-level discussion to get exporters to think earlier and more often about trade finance.
- USEAC staff to play a significant role by bringing up trade finance as an integral part of the clients' export strategy early on in their counseling (to avoid potentially limiting financing options available at a later date, compromising terms extended and their competitiveness).
- To educate staff about trade finance fundamentals, members propose that ITA form a group of public and private sector practitioners (EXIM, SBA, Banks, credit insurance) that would interface (on a recurrent base) with USEAC staff, potentially regionally or at an established centralized training.
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Comments:

- Mike Fuchs noted the current TPCC officer training includes trade finance education segment and various agencies participants. Gary welcomed the idea as starting point. Pat Kirwan (TPCC) asked if the group can develop a curriculum for DOC/TPCC to consider. The group welcomed the idea and noted the suggested curriculum in the draft.
- Bill Glassford suggested to include states, some of which have great financial advisory capabilities.
- Pat Kirwan also supported the idea of including DECAs, MBDA, Expotech, and outside Commerce partners, including coordination with states, for trainers. He pointed out that as chair of the TPCC, the Commerce Secretary has much broader reach. He also recommended to consider non-bank providers.
- Joe Hanley noted that USEAC staff in his region (15 centers) had enough experience to ask the right questions, but establishing regular training rather than episodic, would be helpful and welcomed. He also supported the idea of putting together a decision tree/one-pager as a tool to be provided to the exporter or for USEAC specialists to focus the conversation with clients.

US GOVERNMENT BRIEFINGS

SBA Updates - David Glaccum, Associate Administrator, Office of International Trade

- Front facing: marketing campaign to talk to as many lenders and SMEs as possible about their programs. Helping lenders identify business exporters suitable for SBA export loans, working with more sophisticated or larger companies to discuss STEP programs, meeting with STEP directors and recipients to talk about export finance programs.
- Internally:
 - Working closely with their Capital Access (CA) team on regulations behind their program (1st term TFAC recommendations). CA recognized OIT should treat the international trade finance export loan programs different than SBA's domestic lending.
 - Re-writing the standard operating procedures of their lending programs to make it easier for end-users/lenders. Consolidating all the export sections into one chapter, to go live by January 2020.
 - Will release (late July) an advance notice of proposed rulemaking for formal comments on their three programs, which SBA will then have to consider when formulating new regulation. Asked TFAC to weigh.
 - Soon the loan authorization documents to be updated, re-writing short user guides specific to all three OIT loan programs.
 - Rolling out by October, a new structure of how the DC and field staff operate. More strategic outreach to better identify qualified leads. Targeting specific key export sectors such as small business manufacturing, wholesale trade, retail trade, agriculture, service exports.

USDA Program Overview - Michael Smith, Risk & Asset Management, Foreign Agricultural Service

- Overview of major trade finance program: \$5.5 billion export credit guarantee, purpose is to remove payment risk to U.S. agricultural commodities' exporters shipping to emerging markets and allow foreign buyers the ability to finance the purchase of U.S. commodities.
- Covers U.S. agricultural commodities but not machinery. Is a letter of credit-based program opened through an approved foreign bank (with given a credit limit by the program). The LC is then assigned to a U.S. confirming bank. Always looking for additional U.S. banks.
- The program has approved banks throughout Latin America, several countries in Asia, and Africa. The destination country of the shipment and the country where the foreign bank is located can be different. USDA is not involved in the pricing negotiations between exporter and importer or banks. There is a fee paid by the U.S. exporter, based on the credit risk of the country, foreign bank, and tenor of the repayment terms, currently at most 18 months and 12 months for higher risk countries.

Open Discussion TFAC & U.S. Government Officials

- Joe Hanley offered to contribute to TFAC's work by connecting his staff across the mid-Atlantic region working on similar education and outreach programs. He also suggested connecting with John Larsen, Director for the Office of Digital Initiatives, whose team is redesigning ITA's export portal to identify some synergies.
- Pat Kirwan encouraged the team to consider ITA's focus on digitization as the decision tree and other ideas are developed.
- Ken Wengrod suggested that the decision tree include certain criteria between public and private lenders that would help the exporter understand mitigation of risk types, possibly for the different industry sectors.
- Maria Dorsett, Department of Agriculture, expressed interest in engaging on all education efforts. Kevin emphasized a wholistic approach on education and welcomed agencies openness for cross-collaboration.

CLOSING REMARKS & ADJOURNMENT

Mike provided closing remarks that emphasized the value of the council's advice and expertise, as evidenced by the productive discussions. He expressed his commitment to continue socializing the ideas outlined at the meeting to ensure these can be implemented. He also recognized government officials' participation, critical to inform the group.

Kevin closed noting that the next meeting would tentatively take place in October and will be hosted by the Milken Institute.

No public comments were sent in advance of the meeting or provided at the meeting.