Listing of Second Charter Term Recommendations (17):

July 16, 2020:

1. Expanding available trade finance training and education materials for Commerce staff, particularly at U.S. Export Assistance Centers, including updating the Department's Trade Finance Guide and producing short videos by utilizing the content of the Guide.
2. Promoting access to and awareness of the benefits of export credit insurance and ocean marine insurance to exporters in need of financing.
3. Improving trade finance knowledge for U.S. Embassy Africa Deal Teams to help support the Prosper Africa Initiative.
4. Coordinating and promoting supply chain finance that includes an inventory finance component to facilitate potential solutions for banks and exporters distressed by COVID-19.

May 15, 2020:

1. Helping U.S. exporters collect commercial debts from foreign buyers
2. Leveraging private-sector trade finance partnerships to aid U.S. exporters
3. Supporting ITA's Trade Finance Guide Video Project
4. Lowering costs to allow small businesses access to supply chain financing
5. Accelerating supply chain finance rapid response via automated application process
6. Providing blockchain leadership in US-UK FTA negotiations to promote trade finance access

March 31, 2020 Working Meeting cancelled due to COVID concerns

January 29, 2020

1. updating the Small Business Administration's (SBA) export finance programs

October 3, 2019

1. Modernizing insurance commitments in FTAs,
2. Encouraging adoption of a recently-created business identification code,
3. Promoting standards for SME financial data,
4. Making NIST's ExporTech export education program available online,
5. Replicating the Irvine, California, USEAC's Export Advantage Program, and
6. Guiding USEAC trade finance counseling for SMEs.

June 20, 2019

Discussion of potential recommendations

March 2019

Start of TFAC second charter term introduction of new members – no recommendations.

Summary of Recommendations (from Secretarial Transmission Memos)

July 16, 2020:

1. *Expanding available trade finance training and education materials for Commerce staff, particularly at U.S. Export Assistance Centers, including updating the Department's Trade Finance Guide and producing short videos by utilizing the content of the Guide.*

   The TFAC recommends adding certain new chapters to the next edition of the U.S. Commerce Department's Trade Finance Guide to help bring it up to date and make more relevant to Small and Medium Size Enterprises moving forward. These new chapters include the following.

   - International Debt Collection
   - Asset-based Lending / Receivables-based Financing for Trade Finance
   - Bank Guarantee Financing

   The TFAC further recommends that additional funding be allocated by DOC/ITA to develop additional training videos that will parallel the proposed new chapters of the Trade Finance Guide. The TFAC also recommends that funding be allocated to create one or more webinars covering Trade Finance Basics and/or Trade Finance Advanced Topics.

2. *Promoting access to and awareness of the benefits of export credit insurance and ocean marine insurance to exporters in need of financing.*

   The TFAC recommends that DOC/ITA and relevant Trade Promotion Coordinating Committee (TPCC) agencies should take steps to promote access to and awareness of the benefits of export credit insurance (ECI) and ocean marine insurance to exporters in need of financing.

   ECI protects an exporter of products and services against the risk of non-payment by a foreign buyer. In other words, ECI significantly reduces the payment risks associated with doing business internationally by giving the exporter conditional assurance that payment will be made if the foreign buyer is unable to pay. Simply put, exporters can protect their foreign receivables against a variety of risks that could result in non-payment by foreign buyers. Ocean marine insurance is designed to help protect vessels and cargoes that cross international borders and includes foreign or domestic overland transport connected to the marine shipment. Ocean marine coverage is a necessity for shipments of most exporter manufacturing and distribution operations. Generally, ocean marine insurance covers several broad product types: cargo, hull, Protection & Indemnity, and Marine Liability.

   There is a gap in the potential uptake of ECI and ocean marine insurance and their utilization by U.S. exporters, particularly small-and-medium-sized enterprises (SMEs). In addition, many countries restrict the ability of U.S. insurers to underwrite ocean marine risks on a cross-border basis, to the detriment of U.S. exporters and U.S. insurance companies that finance these exports through ocean marine insurance. This recommendation would seek to address that gap as well as encourage removing those barriers in order to help enhance U.S. exporters' ability to obtain financing.

3. *Improving trade finance knowledge for U.S. Embassy Africa Deal Teams to help support the Prosper Africa Initiative.*

   The TFAC recommends that DOC/ITA, with cooperation from private sector banks and insurance companies, helps U.S. Embassy Africa Deal Teams improve their knowledge of trade financing opportunities. The private sector groups, including those suggested by the TFAC, could work with DBIA and Global Markets to establish an informal exchange of information on trade finance. Such an exchange could leverage Commerce resources to disseminate trade finance information through Microsoft Teams (and other tools) to train local deal teams, provide advice on market and deal selection, and provide introductions on finance companies with experience in the African market. The knowledge obtained would enable U.S. Embassy Deal Teams to more effectively combine their considerable market intelligence and contacts with greater knowledge about potential sources and types of financing available to exporters. Such cooperation would strengthen the ability of U.S. Embassy Deal Teams to support U.S. exporters and find partners on the continent.

4. *Coordinating and promoting supply chain finance that includes an inventory finance component in order to facilitate potential solutions for banks and exporters distressed by COVID-19.*

   The TFAC Public-Private Partnerships Subcommittee recommends that DOC/ITA takes the lead to initiate an interagency discussion with the U.S. government export finance agencies (EFAs) and the Federal Reserve System (FED) to explore ways to promote financing of inventory that is owned by a supplier to be delivered to a creditworthy buyer within a contractually defined period. For the EFAs this would mean looking into the possibility of allowing financing, under their export finance programs, of inventory held in a foreign location under the control of the seller/exporter. The FED should be encouraged to support and promote the use of Title II of the Export Trading Company Act by banks to enable financing of inventory in transit and foreign and domestic warehouses by taking ownership and, therefore, control of the inventory. DOC/ITA would promote the use of these potential SCF solutions to banks, fin-techs, exporters and small businesses.

   A major sub-set of Trade Finance is supply chain finance (SCF) whereby banks and non-bank fin-techs finance the receivables due to suppliers from foreign and domestic manufacturers. These programs are characterized as “reverse factoring”, “dynamic discounting” or “payables finance”. These programs provide liquidity to suppliers while allowing buyers to extend payment terms to preserve cash. The suppliers are often delivering raw materials or components on a Just-in-Time (JIT) basis that requires suppliers to carry sufficient inventory to assure JIT delivery. The inventory cannot be financed under the existing SCF programs. The COVID-19 pandemic has exposed a weakness in this model as many suppliers were incentivized to keep inventory as low as possible to preserve cash. The result has been shutdown of production lines or failure to deliver medical and consumer goods on time. The TFAC Public-Private Partnerships Subcommittee believes a true SCF program should include financing of inventory to avoid supply chain interruptions.

<u>May 15, 2020:</u>

1. *Helping U.S. exporters collect commercial debts from foreign buyers*

   The TFAC recommends that DOC/ITA develop procedures and training for commercial officers who are notified about non-payment involving overseas buyers. These should include ways to communicate with the delinquent buyer to ascertain or prompt payment, and to advise the exporter of remedial steps they can take when matters are unpaid. In addition, DOC/ITA should maintain a database of buyers who default on payments, and when these defaults remain uncured the buyer should be identified to other government agencies which may take further actions until the delinquencies are cured. Furthermore, DOC/ITA should vet and develop relationships with professional debt collection agencies, in order to identify and make available qualified firms that can help exporters in various markets that encounter payment defaults with their customers.

2. *Leveraging private-sector trade finance partnerships to aid U.S. exporters*

The TFAC recommends that DOC/ITA create a streamlined agreement to allow for multi-year partnerships with the most recognized trade finance focused organizations in the United States, such as the Bankers Association for Finance and Trade, the International Factoring Association, Secured Finance Network (formerly Commercial Finance Association), the Florida International Bankers Association, etc. These partnerships would serve as a resource for the nation's exporters as they seek to understand the financing options and private resources that are available to them. Once a partnership is in place, exporters can navigate from www.export.gov to dedicated landing pages of the partner organizations which would serve as a resource guide to visitors. From there, exporters can navigate to the resources available through the organization. This would be the best way to allow exporters to make connection with lenders equipped to meet their Trade Finance needs. Given that most of these organizations are not-for-profits and operate with a limited staff, it is crucial that the current partnership agreement be amended to a multi-year agreement once the once an organization has been reviewed and verified. The goal of this recommendation is to create a way for exporters to connect more easily with Trade Finance resources without having DOC/ITA involved in the handling of any private information.

3. *Supporting ITA's Trade Finance Guide Video Project*

The TFAC recommends supporting ITA's Trade Finance Guide Video Project. At the beginning of FY2020, ITA was allocated funding to create and release three educational trade finance videos. Each video will be about 4 to 5 minutes long, and the content will primarily be taken from ITA's Trade Finance Guide. The TFAC provided input for:

- The first video, which will cover "Letters of Credit" based on the Guide's Chapter 3;
- The second video, which will cover "Documentary Collections" based on the Guide's Chapter 4; and
- The third video, which will cover "Foreign Exchange" based on the Guide's Chapter 14.

The TFAC also prepared the list of questions and considerations for inclusion in the videos. These are primarily meant to be questions from the point of view of small & medium size enterprises (SMEs) which might helpful. In addition, the TFAC prepared some suggestion examples that could be used to illustrate different deal structures or concepts for the videos.

The TFAC endorses ITA's Trade Finance Guide Video Project and supports its use to encourage SME exporters to learn about trade finance subjects.

4. *Lowering costs to allow small businesses access to supply chain financing*

Small and medium-sized business (SMB) access to Supply Chain Finance (SCF) is a persistent issue that has been thrown into sharp relief in the wake of COVID-19. Traditionally, large corporate buyers center their SCF programs around their largest suppliers. Likewise, financial institutions (FIs) center their receivables financing offerings on similarly large buyer-companies. This is the result of the high cost of underwriting and onboarding. This results in an environment where meaningful working capital solutions exist for the largest companies in the U.S. but fails to address the working capital needs of SMBs. If FI onboarding and supplier enablement was less costly, FIs would be able to profitably extend SCF further into the supply chain and provide SMBs with greater access to working capital. Therefore, the TFAC recommends that DOC and other federal agencies form a committee to explore the sponsoring of a platform that would allow SMB suppliers to self-identify, register, and upload data that is often expensive and onerous for FIs to collect. At the same time, suppliers should be given the ability to post their receivables for sale and for large US buyers to confirm the validity of those invoices. By minimizing the cost and effort to perform some onboarding and underwriting activities as well as creating a location to view receivables for sale, the government would remove some of the barriers to achieving profitable FI supply chain financing for SMBs.

5. *Accelerating supply chain finance rapid response via automated application process*

IMPROVING THE EFFICIENCY OF THE PROCESS THROUGH AUTOMATED PROCEDURES, DIGITAL DOCUMENTATION AND ELECTRONIC SIGNATURES WILL REMOVE FRICTION AND INCREASE THE VELOCITY OF DELIVERY OF TRADE FINANCE SOLUTIONS. DIGITAL SOLUTIONS ARE IN USE TODAY BUT GENERALLY LIMITED TO LARGER BUSINESS ENTERPRISES. THESE AUTOMATED SOLUTIONS SHOULD BE BROADENED TO ALLOW SMBS THE SAME ACCESS TO EFFICIENT AND EASY TO USE PROCESSES THAT THEIR LARGER BRETHREN ENJOY. THE IMMEDIATE NEED POSED BY THE COVID CRISIS SERVES AS A CATALYST FOR THE BROADER INTRODUCTION OF DIGITAL DOCUMENTATION AND ELECTRONIC SIGNATURES. THESE AUTOMATED PROCEDURES ARE ALREADY IN WIDE USE IN A VARIETY OF CONSUMER AND COMMERCIAL FINANCE PRODUCTS INCLUDING RESIDENTIAL MORTGAGE APPLICATIONS. THEY EASE THE BURDENS ON THE PARTICIPANTS, SPEED THE PROCESS AND SUPPORT THE QUICK AND EFFICIENT DELIVERY OF THE PROCEEDS OF THE FINANCING TO THE USER. IN THESE PERILOUS TIMES WHERE CASH IS KING, FAST ACCESS TO FINANCING CAN DECIDE THE FATE OF A BUSINESS AND DETERMINE WHETHER OR NOT THE SMB SURVIVES ANOTHER DAY. THEREFORE, THE TFAC RECOMMENDS THAT THE DOC SUPPORT, ENCOURAGE AND FACILITATE THE USE OF DIGITAL DOCUMENTATION AND ELECTRONIC SIGNATURES AS A KEY COMPONENT OF THE PROCESS FOR SMBS TO OBTAIN TRADE FINANCE. MORE SPECIFICALLY, DOC AND OTHER FEDERAL AGENCIES SHOULD ESTABLISH THEMSELVES AT THE FOREFRONT OF THIS INITIATIVE BY ESTABLISHING DIGITAL DOCUMENTATION AND ELECTRONIC SIGNATURES IN THEIR OWN FINANCING ACTIVITIES.

6. *Providing blockchain leadership in the US-UK FTA negotiations to promote trade finance access*

Digitization of trade flows and financial assistance under emergency implementation has been difficult. This is due in, no small part, to the lack of existing guidance from governments about newly-developed technologies that are being used to quickly scale digital interactions. Blockchain is an important technology within digital solutions, and the US-UK FTA has opened the door for US leadership in a globally evolving digital infrastructure. Existing FTAs includes chapters on ecommerce and other digital measures. However, none have not yet covered net-new technologies like blockchain. The UK's Department for International Trade has already added blockchain to its negotiating goals for the US-UK FTA, which specifically reference blockchain technologies as an area of digital trade leadership. US financial institutions and businesses have been using blockchain for trade finance, supply chain finance and global trade for several years now. Therefore, the TFAC recommends that DOC and other federal agencies consult together to provide analysis and leadership for blockchain-relevant language in the US-UK FTA that facilitates much-needed standardization of a blockchain trading network and promotes an environment that enables SME access to finance.

March 31, 2020 Working Meeting cancelled due to COVID concerns

January 29, 2020

1. *SBA Export Program Response*

Forwarded for your information are (1) a Trade Finance Advisory Council (TFAC or the "Council") recommendation on updating the Small Business Administration's (SBA) export finance programs, adopted on January 29, 2020, and (2) a response letter for your approval and signature thanking TFAC Chair Kevin Klowden for the recommendation.

SBA's export finance programs are very important tools for America's small businesses considering going global and small business exporters in need of greater access to working capital to continue to grow and succeed in global markets. In its recommendation, the TFAC advises you to encourage SBA to re-evaluate the current rules governing the agency's export working capital finance programs, which appear to have originally been written for term loans and commercial mortgages, and update these rules to reflect their customized nature.

Access to trade finance is critical to the success of U.S. exporters across all industry sectors. Implementation of the TFAC recommendation would support the Department's strategic goal of enhancing job creation by strengthening U.S. companies' export capabilities and the Administration's priority of growing American jobs and prosperity.

October 3, 2019

1. *Modernizing Insurance Commitments in FTAs*

Most existing Free Trade Agreements (FTAs) address only the provision of insurance against marine, aviation and transportation risks (MAT) which reflects more a concept of trade of producing a good in one market shipping it to a buyer in another market. With the rise of international trade conducted by multinational enterprises through global value chains and U.S. companies trading around the world through local operations in multiple markets, Commerce and other relevant agencies should negotiate expanded insurance commitments in future FTAs that include difference-in-conditions and difference-in-limits (DIC/DIL) insurance, which would enable insurers to support the financing of U.S. exports more effectively.

2. *Encouraging Adoption of a Business Identification Code*

Following the global financial crisis, the United States and other G20 nations developed a new harmonized global system to identify legal entities in financial transactions. Known as the "Legal Entity Identifier (LEI)", this code is used largely for financial reporting but could also be incorporated into trade finance processes to achieve accuracy, consistency, and cost savings. Citing to a McKinsey study, the Council notes that use of the LEI could yield annual savings for banks over $500 million per year in trade finance-related products, which ultimately expands opportunities SMEs to access to financing through banks. The Council recommends that Commerce (a) encourage states to incorporate LEIs into their current entity identification systems, (b) promote LEI adoption through a state and private sector stakeholder roundtable, and (c) develop a protocol to help states link the LEI to current identity systems.

3. *Promoting Standards for SME Financial Data*

SMEs currently struggle to present financial data in a consistent and standardized manner, thus limiting their access to bank financing as well as to newly emerging financial technology ("fintech") firms and techniques such as blockchain. The Council recommends that Commerce work to improve the financing environment for SMEs by (a) collaborating with international standards bodies to adopt updated digital standards, (b) educating Congress about the benefits of leveraging blockchain technology to improve SME access to finance, and (c) continuing the dialogue about data standards under the recently announced U.S. -UK Financial Innovation Partnership.

4. *Making NIST's ExporTech Export Education Program Available Online*

The Council considers the National Institute of Standards and Technology's ExporTech program to be among Commerce's most comprehensive export education and training programs. However, the program is currently available only in specific geographic locations. By bringing the program and Commerce's existing export education materials online, SMEs could more easily access the program and learn how to sell to foreign markets. The Council recommends that ITA collaborate with NIST to coordinate current online efforts and establish a learning program to enable businesses to build their export plan online.

5. *Replicating the Irvine USEAC's Export Advantage Program*

The USEAC in Irvine, California, has developed a highly successful one-day Export Advantage Program that provides specialized coaching and customized mentoring to SMEs and helps connect them to vetted trade finance providers and export facilitators. The Council recommends that ITA scale up this program and replicate it in other locations to better serve SME exporters.

6. *Guiding USEAC Trade Finance Counseling for SMEs*

The Council has developed a trade finance "decision tree" that it hopes could be a useful tool to help USEAC staff ask SME clients the right trade finance questions and direct them to the best resources. The decision tree would encourage USEAC staff to: (1) raise the subject of trade finance early and often; (2) help SMEs/exporters understand the kind(s) of trade finance they need; and (3) develop and maintain a referral list of local public- and private-sector financial institutions.

June 20, 2019

Discussion of potential recommendations

March 2019

Start of TFAC second charter term introduction of new members – no recommendations.