

Commonwealth Bank **Australian Grains Conference**

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An overview of Trade Finance

...from a Bankers perspective



What is Trade Finance

- ◆ Trade Finance is the provision of Financial Services to companies involved in the buying or selling of goods (and/or services)
 - Can be cross border or domestic
 - Involves a number of parties (i.e. Buyers, Sellers, Trade Financiers, risk participants, Credit Insurers, etc.)
 - Can be disclosed (i.e. Letters of Credit) or undisclosed (i.e. a Working Capital line)

The Banks role in Trade Finance

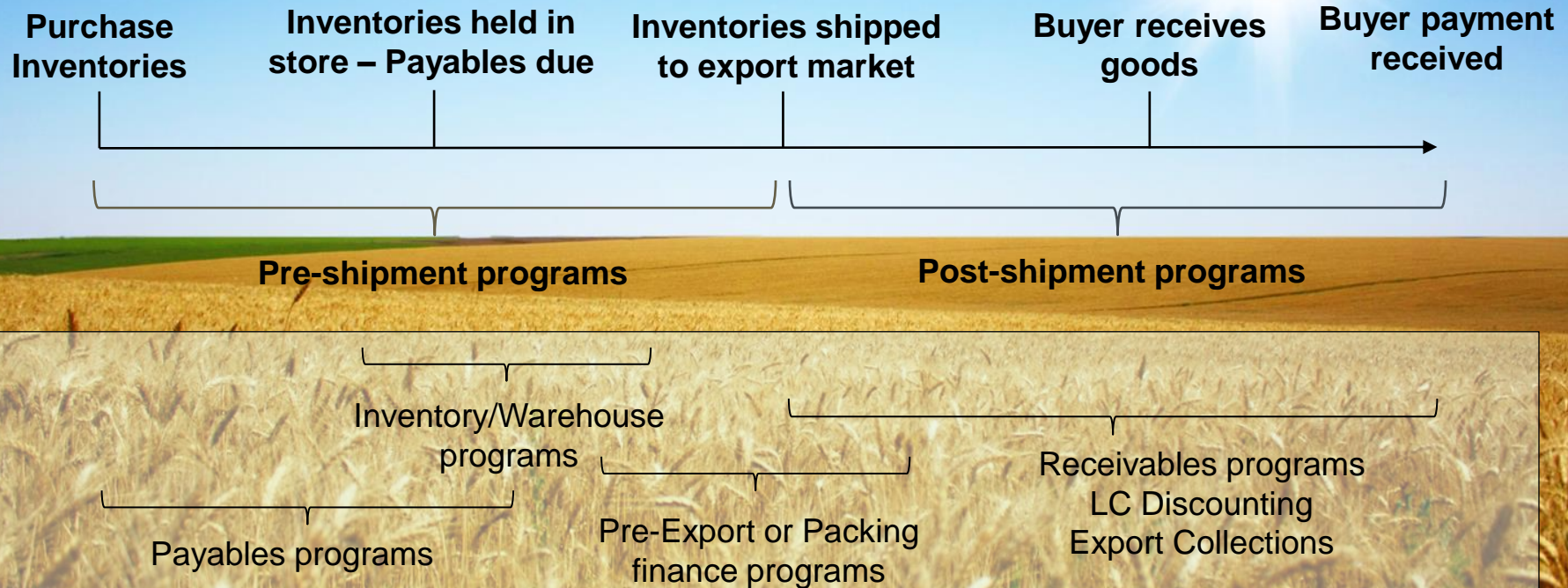
- ◆ To provide Liquidity
 - Sellers are being asked to be the unwilling financiers of buyers
 - Working capital management across the supply-chain is not as simple as extend creditors, shorten debtors
- ◆ To identify risks and provide tailored solutions that mitigate them
 - Sovereign/Political Risk
 - Transfer Risk
 - Credit Risk
 - Transport Risk
 - Exchange and Commodity Risk
 - Relationship / Competitor Risk
 - Cash flow Risk

‘Applied’ Trade Finance

The view through a Bankers lens

- **What are the risks** – a banker will review each and every transaction to identify the risks at each stage in the supply-chain and create a tailored solution to mitigate as much risk as possible
- **What solutions can be developed** – the banker will look to improve efficiency in the cash flows and working capital position across the supply-chain of the buyer/seller
- **Will facilities offered be attractive** – a tailored solution needs to be attractive to the end user, so ensuring the terms and conditions match the needs of buyers/sellers is absolutely vital
- **Will the facilities be re-paid** – In the end, Trade Finance is often a form of lending. The banker will always need to be satisfied that the finance will indeed be repaid!

'Applied' Trade Finance



Trade Finance – Banks and other participants

- ◆ There are times when a Trade Financier will be unable to support transactions on their own. There are a number of other participants in the Trade Finance marketplace who may be able to assist by working with the financier to provide facilities.
 - **Credit Insurers** – focus more on the commercial contract terms between buyers and sellers. Can underwrite key risks that can be the difference between deals being financed, or not.
 - **Export Credit Agencies (ECA)** – Australia's ECA is EFIC, who will be presenting shortly
 - **Development Banks** – one of which is the International Finance Corporation (IFC), and again, will be presenting shortly

Looking to the future of Trade Finance

There are a number of 'new' initiatives across the Trade Finance world – for further discussion another day

- **Continued focus on 'Open Account' trade** – there is a Global trend away from the traditional documentary trade instruments towards more efficient tools (noting that Documentary Trade volumes are actually increasing in some markets). The industry will continue to innovate with the use of technology and data sharing as e-commerce continues to evolve.
- **New industry rules and standards to address the industry moves** – ICC rules for supply-chain finance – URBPO issued this year. SWIFT continues to innovate and deliver new ways of transacting
- **Multi-bank Trade Finance platforms** – Trade financing solutions based on independent technology and industry standards for both documentary and open account trade
- **Syndication and securitisation of Trade assets** – addressing issues that will become more prevalent under Basel III

The Commonwealth Bank

- ◆ CommBank is Australia's leading provider of integrated financial services, including retail, premium, business and institutional banking, funds management, superannuation, insurance, investment and share-broking products and services.
- ◆ Our specialised Trade and working capital finance team provides solutions around
 - Documentary Trade (collections and credits)
 - Innovative Trade Finance solutions (e.g. Structured Inventory Finance – with both ownership and borrowing base solutions)
 - Standby Letters of Credit and Structured Guarantees

THANK YOU

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