

Striking a balance



The implementation of regulation in the area of trade finance transactions is proving a challenging task – how to impose rules sensitively without curtailing the flow of the process and with no impact on costs.

The messages to the BIS and national regulators ultimately mandated, are to ensure adequate implementation are being crafted and reinforced by industry leaders through a variety of channels, hopefully to good effect in the end.

Financial sector regulation is necessary. Even the most ardent supporter of “laissez-faire” would be hard-pressed to credibly argue against such an assertion, given what we have just experienced (and continue to experience) on a global scale.

Regulators and those mandated with the development of effective regulatory regimes – even so-called “soft law”, such as the folks at the Bank for International Settlements (BIS) in Switzerland, have a responsibility to “get it right” – to strike a reasonable balance between effective oversight and the ongoing conduct of sound, legitimate and prudent business.

Despite industry attempts to correct serious failings in its engagement on Basel II, and despite the continued high profile of trade and trade finance at senior levels of government, as well as in multilateral contexts such as the G20 meetings, it appears that there is a level of tone-deafness in some quarters about what ought to be considered fair and equitable treatment of trade finance as an asset class.

A trade finance transaction – by definition, short-term, self-liquidating and linked to the flow of goods – is not a credit card transaction, or a high-risk mortgage contract. Effective regulation, and appropriate implementation of regulatory guidelines, ought to carry with it an imperative to allow for the unique characteristics of that which is being regulated, in order to avoid impeding the proper conduct of business.

The messages to the BIS and national regulators ultimately mandated, are to ensure adequate implementation are being crafted and reinforced by industry leaders through a variety of channels, hopefully to good effect in the end. What is perhaps less an area of focus is the bottom-line impact of inappropriate regulation to businesses pursuing the conduct

of international trade – and through success in those activities, fuelling a global economic recovery that is in all of our interests.

Current measures, if broadly implemented and sustained over a period of time, will inexorably reduce the amount of capital allocated by banks to the financing of international trade, and will (some say, already have) inevitably increase the cost of financing trade: a cost that will impact fully 80% to 90% of global trade flows which rely on the availability of timely and equitably-priced financing.

Innovation in trade finance can involve something other than the design of new products or financing solutions: at this moment, there is an urgent need for all stakeholders to engage in shaping the fair and equitable regulation of trade finance activities – initially perhaps with the BIS, but certainly at the level of national regulators – suggesting a domestic political avenue through which interested parties can exercise influence.

Senior financiers appreciate that Basel II, Basel III and other iterations to follow, are not an abstract exercise, or a regulatory effort which solely impact banks, but rather that these regimes and the requirements they impose will increase the cost of trade finance as well as trade-related risk mitigation. Whether trade activities are funded through the capital markets, or bank financed, or whether insurers and export credit agencies play a major role, the cost to businesses will increase materially.

The time is now: to engage all stakeholders in a constructive, solution-oriented dialogue around the regulation of trade and supply chain finance, to the ultimate benefit of all. //

A.R. Malaket is president of OPUS Advisory