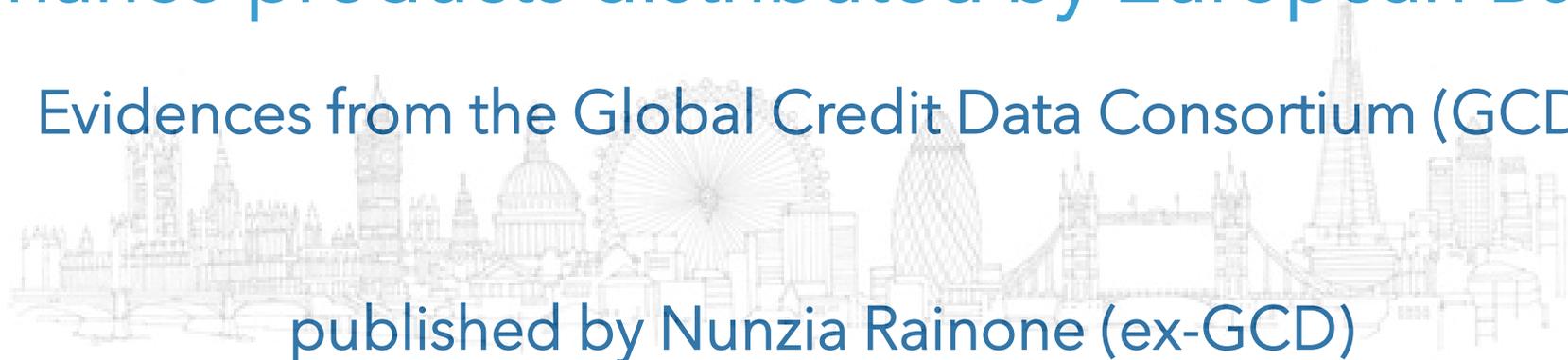


Global Credit Data

by banks for banks

Historical level of Credit Conversion Factor for Trade Finance products distributed by European Banks

Evidences from the Global Credit Data Consortium (GCD)



published by Nunzia Rainone (ex-GCD)



AGENDA

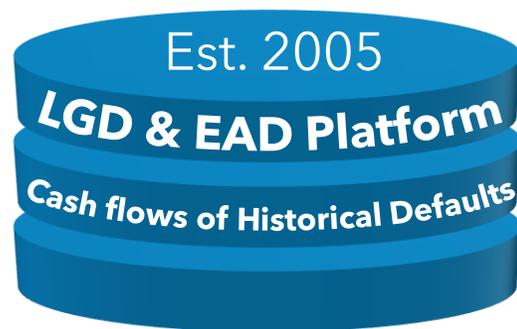
Disclaimer: Any views expressed in this presentation are those of the presenter and do not necessarily represent the views of Global Credit Data or its members.

- ❑ GCD and ICC (International Chamber of Commerce) collaboration
- ❑ Trade finance products: GCD data overview
- ❑ Performance Guarantees
- ❑ Credit Conversion Factor for Performance Guarantees: Evidences from GCD

Agenda

- ❑ About Global Credit Data (GCD)
- ❑ GCD and ICC (International Chamber of Commerce) collaboration
- ❑ Trade finance products: GCD data overview
- ❑ Performance Guarantees
- ❑ Credit Conversion Factor for Performance Guarantees: Evidences from GCD

Trade Finance risk data



Data pooling of historical defaults' realised EAD/CCF and LGD (e.g.: with detailed collection of workout cash-flows) - with collection of Borrower, Facility, Collateral and Guarantor characteristics.



Data pooling of historical defaults and recoveries for short term trade finance (import and export L/Cs, Performance guarantees and loans and medium term ECA backed deals

GCD solution

ICC Trade Register solution Run by GCD

GCD LGD TF data

GCD LGD

Loan level data from peers
(Dec. 2021)

Facility Type	Number of Defaults	Number of Loans	Exposure [in mn EUR]	% of facilities not drawn down	CCF (Paid/issued Amount)
ECA Export Finance	150	433	€ 2.830		
Pre-export Finance	70	111	€ 577		
Bill accepted by Bank	17	26	€ 59		
Transactional Trade Finance	475	996	€ 2.066		
Bid or Performance Bond	70	264	€ 29	84,47%	14,44%
Confirmed Export L/C sight or usance	43	63	€ 68	76,19%	25,77%
Import L/C sight or usance	210	585	€ 243	82,74%	25,93%
Trade Related Payment Guarantee	96	176	€ 40	77,27%	19,28%
Prepayment Finance	46	56	€ 223		
Receivables Financing	2.674	2.763	€ 5.135		
Structured Inventory Finance	45	47	€ 195		
Contract Bonds	362	1.333	€ 70	90,40%	7,62%
Payment Guarantee and Stand By LC's	2.280	4.560	€ 1.115	89,98%	8,46%
	6.286	11.413	€ 12.648		

2022 ICC - GCD performance
Guarantees paper
(based on GCD data)



Upcoming 2022
ICC-GCD Trade
register Report



Performance Guarantees* features

* [CRR3 Article 111 and Annex](#) Bucket 2 includes performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions and similar transaction-related contingent items; also termed as 'technical guarantees' in certain jurisdictions.

Performance Guarantee / Bond

guarantees a **performance-based obligation** to deliver some equipment or services on an agreed date.

That is a **non-financial obligation in nature** (or in which the primary obligation is non-financial in nature).

An example would be where the client of a bank has contracted with another party to perform a service and asks its bank to provide a **Guarantee which can be called by the other party upon failure of performance.**



Performance Guarantee CCF: a regulatory topic

In the new CRR Treatment, regulators are willing to increase in the Credit Conversion Factor (CCF) of this product from existing 20% to 50%, through its inclusion in the bucket 2 of the Annex Classification of off Balance Sheet Items.

While trade finance represents only a small proportion of the assets regulated by CRR, the potential impact of the changes contemplated by the draft regulation could have far-reaching consequences for the competitiveness of EU-based companies trading (or seeking to trade) internationally – and, moreover, for the achievement of the laudable targets set out in the European Green Deal.



ICC assessed the impact of a 50% CCF, which will increase the cost of Performance Guarantees by 150%, heavily impacting corporate business. In addition, the new measure will reduce market capacity for this product due to the increase in RWAs for the banks providing the product.

Draw rate for Performance Guarantees*

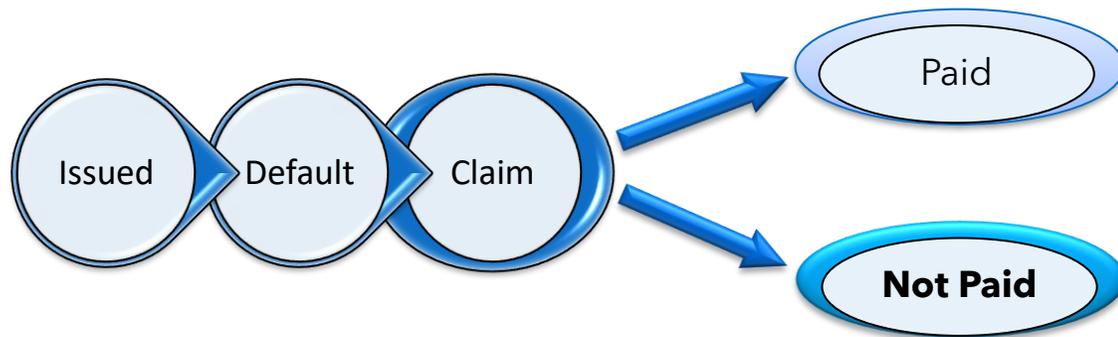
Type of guarantee	Year	Number of gtees issued	Number of gtees claimed or extended	Claim Rate	Number of gtees paid out	Claim Paid rate	Number of gtees extended (not paid)	Ultimate Drawing rate (Number of gtees paid out vs number issued)	Count of lender
Performance	2016	366,010	15,301	4%	827	5%	14,146	0.2%	16
	2017	356,850	14,930	4%	858	6%	13,635	0.2%	16
	2018	426,503	18,224	4%	964	5%	16,700	0.2%	17
	2019	319,817	15,425	5%	631	4%	14,643	0.2%	11
	2020	371,872	12,730	3%	609	5%	11,876	0.2%	11
	Total	1,841,052	76,610	4%	3,889	5%	71,000	0.2%	17

Performance guarantees is a Trade Finance instrument used to cover execution risk of good delivery in import/export operations. Data show that operation failures are very rare, and recourse to payment is very low representing not more than 0.2% of issued guarantees.

Trade Finance supports SMEs, Large Corporation and Industries, and specifically Private and Public sustainable Projects for Infrastructure / Transport / Energy, and can ease an accelerated climate transition, fostering job growth, fighting against inflationary costs and strengthening EU's strategic autonomy.

Draw frequency for defaulted Performance Guarantees

GCD data covers cases where the borrower has defaulted (using the Basel definition). Drawing frequency is shown in the GCD data by the “percentage of facilities drawn”. For contingent lines, including performance guarantees, the “draw” frequency is low with only 10% of guarantees finally paid by the bank when underlying contract and funding default.



Facility Type	Number of Defaulted Facilities	% of facilities drawn
Bid or Performance Bond	264	15%
Trade Related Payment Guarantee	176	20%
Other trade related Bonds	1,333	8%
Total Performance Guarantees	1,773	10%

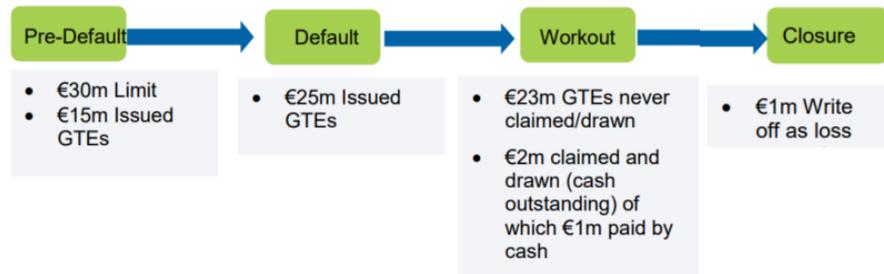
*Guarantees issued need to be dealt with by the bank after default. Each guarantee will be:

- claimed, or
- never claimed (lapse), or
- extended (sometimes multiple times) or
- paid

until guarantees are dealt with the bank cannot calculate its exposure to the customer.

CCF for defaulted Performance Guarantees

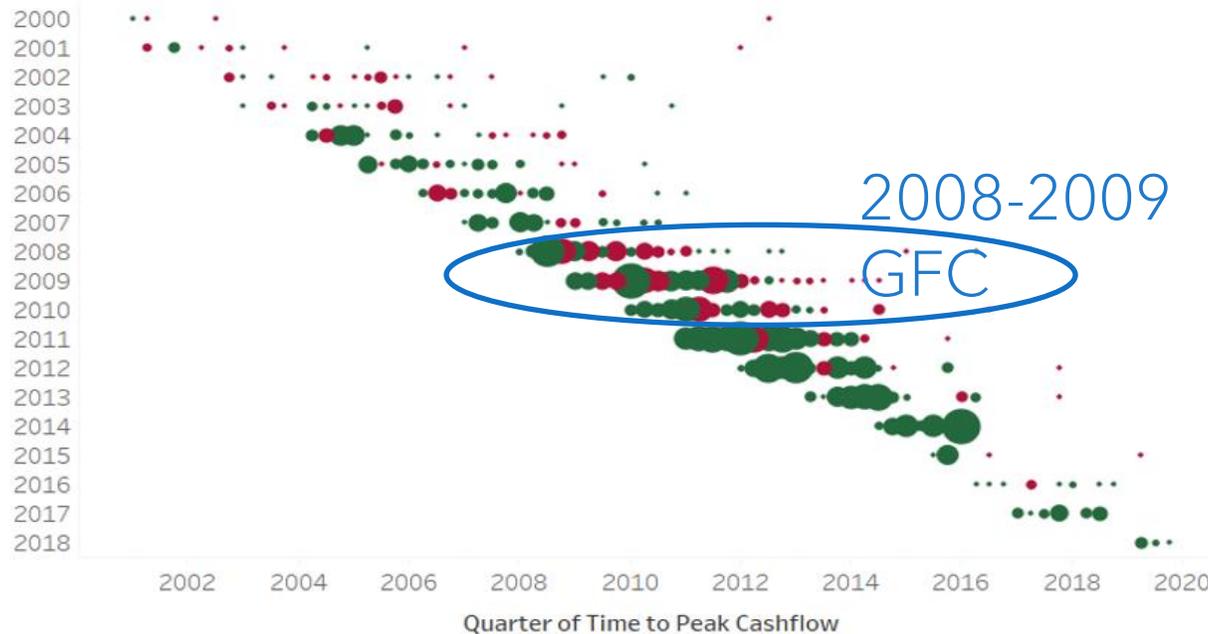
The CCF defined here is the **conversion rate of off-balance sheet exposure to on-balance sheet exposure** (by way of a payment on a claim) measured after default on issued amounts for those guarantees



CCF=8%, being 2 million drawn divided by 25 million issued amount.

Facility Type	Number of Defaulted Facilities	CCF (Paid/issued at facility level)
Bid or Performance Bond	264	23%
Trade Related Payment Guarantee	176	11%
Other trade related Bonds	1,333	7%
Total Performance Guarantees	1,773	8%

Impact of economic downturns (credit cycles) on the CCF for defaulted Performance Guarantees



Average CCF tends to be higher in times of economic downturns.

The heat map is a tool used to examine the profile of crises while capturing the impact on cash flows. The color indicates if the CCF was above 10% (red) or below (green). The size of each dot represents the number of all defaults in a given year reaching the peak recovery in that quarter, the bigger the dot the more defaulted facilities.

Two effects can be observed from this chart:

1. First, **CCFs during the crisis years are higher than the average (red dots)**. Looking at the period Q2 2008 to Q4 2009, mainly red dots are visible - indicating above-average CCF, in line with global financial crisis. Latest years show CCF below 10%, in line with a more benign economic environment.
2. Second, **size of the dots is bigger during the GFC, confirming an higher Default rate**.

Conclusion

- Trade finance supports close to 80% of international trade and is key to allowing EU companies to import/export their goods and services abroad
- This data driven study demonstrates that prudential framework (CRR3) can treat trade finance as low risks instruments
- Thus, supporting funding of SMEs, Corporations, sustainable Public and Private Infrastructure Projects facing challenging macroeconomic and geopolitical environment
- GCD data proved sound and of good quality leading to impactful information validated by business expert and used in EU legislative process
- To suggest a research simply contact : secretary@globalcreditdata.org