BANKERS' ASSOCIATION FOR FINANCE AND TRADE
An Affiliate of the AMERICAN BANKERS ASSOCIATION

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Basel Committee on Banking Supervision
Bank for International Settlements
CH – 4002, Basel
Switzerland

Re: The third consultative paper on the New Basel Capital Accord

Dear Sir:

We are pleased to offer brief comment on the third consultative paper, which we submit on behalf of our 100 bank members, who are globally active and offer trade service products in many markets around the world.

A brief word about The Bankers' Association for Finance and Trade: BAFT is an 82-year-old trade association that has been an affiliate of the American Bankers Association since July 1, 2002. BAFT's mission throughout its history has been to provide a medium by which its members may interchange opinions and establish uniform systems and methods for the conduct of foreign business; to urge the passage of wise and useful legislation and to oppose the enactment of prejudicial laws; and to aid the development and maintenance of foreign trade.

We are very pleased to see that the third consultative paper now includes specific reference to short-term trade transactions in paragraph 58. This will certainly help facilitate trade transactions with developing markets where short-term trade is often the lifeblood of the economy.

We remain concerned, however, that trade credit risk is not more explicitly covered in the third consultative paper. We believe that it is important to both exporting nations and to importing nations that the new accord reflects the importance of trade and the financing of trade to a financially healthy global marketplace.

We would make one specific comment regarding risk mitigation in trade finance, which, again, is not specifically covered in the third consultative paper. The only reference to risk mitigation in which mitigation of trade related risk would fit contextually is found in QIS3 FAQ: E. Credit Risk Mitigation. The question and answer follow:

*"6. If a bank is using a credit risk mitigant, like insurance, that effectively functions like a guarantee is it allowed to treat such risk mitigants as an ordinary guarantee?*

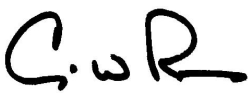
**Answer:** Yes, provided that such a products meets the operational requirements for guarantees laid down in paragraph 154 to 165 of the Technical Guidance any product may be treated as a guarantee."

In the Technical Guidance, paragraph 154[1] would appear to best cover trade credit risk mitigation in the context of guarantees and insurance. Our understanding of the definition is that in the absence of an "unconditional" guarantee, there would be no mitigation. Since insurance, by its nature, is a conditional mitigant, the language in paragraph 154 would seem to preclude using insurance to mitigate trade exposure.

We have discussed how insurance is used as a mitigant with a number of our members and there is confusion and inconsistency regarding treatment under the existing accord and questions as to how insurance will be treated under the new accord. Specifically, we understand that banks currently weight ECA *insured* transactions from 0% to 20%. Generally, commercial trade credit insurance is weighted 100%. There are two points to be made here: First, commercial trade credit insurance should be weighted less than 100%, depending on the strength of the insurer, and second, since there appears to be inconsistent treatment in different markets, the new accord should explicitly cover trade credit risk mitigation.

We thank you for the opportunity to comment on the third consultative paper and look forward to seeing the final product.

Sincerely



Consider W. Ross
Executive Director

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[1] "154. A guarantee/credit derivative must represent a direct claim on the protection provider and must be explicitly referenced to specific exposures, so that the extent of the cover is clearly defined and incontrovertible. Other than non-payment by a protection purchaser of money due in respect of the credit protection contract it must be irrevocable; there must be no clause in the contract that would allow the protection provider unilaterally to cancel the credit cover or that would increase the effective cost of cover as a result of deteriorating credit quality in the hedged exposure. It must also be unconditional; there should be no clause in the protection contract that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the original counterparty fails to make the payment(s) due."