International Chamber of Commerce
The world business organization

The Secretary General

Mr William J McDonough
President and CEO
Federal Reserve Bank of New York
Chairman of the Basel Committee on Banking Supervision at the Bank for International Settlements
33 Liberty Street
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Dear Mr Chairman,

The ICC, which represents international business in 140 countries, has been following closely the development of the new Capital Accord by the Basel Committee on Banking Supervision. We have been especially interested in changes that may have an adverse impact on small business and trade finance.

We welcome the Committee's latest proposals with regard to small business, as detailed in the Technical Guidance to the Quantitative Impact Study 3. These go a long way to meeting our concerns.

We are disappointed to note, however, that there appears to be little recognition of the potentially serious impact the current credit risk proposals could have on trade finance. As the Committee will be aware, the provision of this service is critical to the smooth functioning of world trade. An increase in the cost of provision, or the withdrawal of banks from the market, would be extremely unwelcome. We believe that the proposals could well have these, undoubtedly unintended, consequences. They could well bite hardest on trade with developing countries or those with relatively low credit ratings. This, of course, runs contrary to the whole thrust of the current Doha Round underway within the WTO, whose main objective is to create more opportunities for developing countries.

Trade finance has an extremely low risk profile. Many banks could demonstrate that they have experienced little or no loss over long experience of being in the market. This reflects the contingent nature of the liability; the fact that the contingency often relies on

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compliance with ICC codes of practice, including the well-known *Uniform Customs and Practice for Documentary Credits* (UCP 500), ISP98 and other industry rules, published and administered by ICC. The Committee, we believe, should also take into account the strength of the legal and risk management framework within which trade finance is conducted and the rights of banks to the underlying goods. Finally, we would note that trade-related instruments are the last to be affected when a country has serious difficulties (Russia, Argentina and Uruguay are recent examples).

The present proposals represent, for the great majority of banks, a significant increase in risk weighting for this activity from a level which was already considered to be excessive in relation to the risks incurred and actual loss experience.

I am therefore writing to urge the Committee to review its proposals for this activity, with a view, at the least, to maintaining risk weighting, and hence capital allocation, at its present level.

ICC would, of course, be delighted to assist the Committee in developing its policy on this important issue.

Yours sincerely,

Maria Livanos Cattaui

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