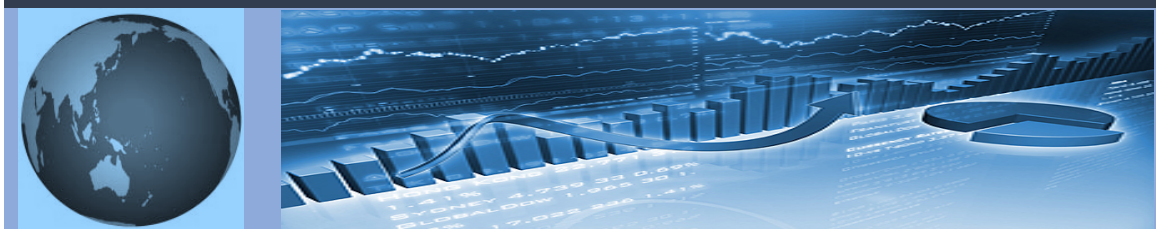




APFF

Asia-Pacific Financial Forum



Key Messages

Trade & Supply Chain
Finance

2015

Asia-Pacific Financial Forum

KEY MESSAGES: TRADE & SUPPLY CHAIN FINANCE

To spur internationalisation and accelerated growth via supply chains, SMEs and businesses can greatly benefit from trade ecosystems that will include increased synergistic interactions between Lending Infrastructure, Finance, Trade and Customs, and Information Technology.

1. As net export contribution to growth is shrinking, Asian growth will have to come from domestic consumption. Cross-border supply chain activities are reflecting these changes, for example, in China-related supply chains, value-add activities are increasingly being integrated onshore in Mainland China. For SMEs and businesses that are preparing to internationalise and participate in supply chains, they will need to be aware of such changing dynamics to guide their expansion plans.
2. In the financial industry, Basel III and regulations related to trade and supply chain finance and Know-Your-Customer (KYC) and Anti-Money Laundering (AML) rules continue to evolve. Regional harmonisation in implementation, alongside review and mitigation of unintended consequences of such rules as the Basel III Net Stable Funding Ratio and Liquidity Coverage Ratio, where they are adopted, coupled with revisions to the Standardised Approach for Credit Risks, can contribute to a more facilitative financing environment to business expansion.
3. As part of their finance management, SMEs and other businesses in supply chains (“participants”) will benefit from greater awareness of: (a) balance sheet-based financing, i.e. financing based on the strength of the borrower’s balance sheet; (b) asset-based lending, which is based on the conversion of receivables and inventory collaterals into cash, and which requires good capacity of lenders, appropriate operating infrastructure and a good legal and institutional framework to enable effective enforcement of security interests; and (c) the importance and availability of third party credit enhancement such as insurance, where businesses’ balance sheets are not sufficiently strong to secure borrowing.
4. The different financing basis creates choices including Factoring, Supplier Financing and Distributor Financing, for participants to utilise, depending on their needs. Economies of scale in financing large numbers of SMEs can be attained by harnessing SME cooperatives or community financing.
5. Trade documents that underpin trade financing choices are still predominantly paper-and-manual based. This adds to the demands on participants’ human resources, which can be alleviated by a greater adoption of technology and electronic documents. Together with simplified, harmonised and clear Customs and compliance rules, they can allow resource-tight participants to increase productivity and leverage on cross-border opportunities, especially with the rapid growth in electronic-commerce.
6. Participants’ competitiveness in such opportunities are supported by suitable digital and mobile financial solutions (“Fintech”), while the “Information Supply Chain” can promote timely and relevant information for participants to better coordinate economic activities as a result of demand and supply dynamics.
7. The APFF Workstream on Trade and Supply Chain Finance seeks to collaborate with international organizations and interested economies to convene public-private sector dialogues and workshops:
 - a. To promote greater awareness in banking regulations and compliance standards for consistent implementation and to mitigate unintended consequences, which will also include regulatory considerations related to electronic trade finance and shipping documents, and standardised security documents to facilitate lending and legal risks management in cross-border trades;
 - b. To promote greater awareness of emerging facilitators of trade and supply chain finance focused on e-commerce, digital and innovative working capital management solutions, use of regional currencies, and the inter-relationships among finance, trade, customs procedures and technology.

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