

Second edition

Corporate Bank

A Guide to Trade Finance

Deutsche Bank



A Guide to Trade Finance

Second edition

Following the success of our first edition in 2020, Deutsche Bank's *Guide to Trade Finance* returns with a fully updated second edition. Over the past five years, disruptions – from the Covid-19 pandemic and macroeconomic volatility to geopolitical conflicts and supply chain shocks – have placed sustained pressure on the global trade ecosystem. Yet through this turbulence, the fundamentals of trade finance have endured, continuing to serve as a vital pillar of commerce and a source of stability in uncertain times.

Set against this backdrop, the new edition provides a clear introduction to the trade ecosystem – covering core products, key standards, emerging technologies, and market participants. It also adds new material on the evolving landscape of risk management and trade finance distribution, alongside a refreshed chapter on sustainable finance and its growing role in global trade.

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Foreword

When Deutsche Bank issued its first *Guide to Trade Finance* in March 2020, its publication coincided with the first phase of the Covid 19 pandemic – one of the most disruptive forces on global trade in recent history.

Five years on and thousands of downloads later, the resilience and dependability of trade finance shine through. Periods of economic and geopolitical volatility always raise its profile as a reliable go-to source of secured lending.

With global trade volume in 2024 at a new record of US\$33trn according to UN Trade & Development (UNCTAD), demand for trade finance well outstrips supply. We are quietly confident that growth will continue and that – helped by its exemplary record of low defaults – the resilience of trade finance will be maintained. This will require commitment, education and trust. On-the-ground relationships with offtakers, non-bank financial institutions, and other contributors to risk management and funding need constant nurturing.

With editorial from seasoned trade finance experts, this second edition of the *Guide to Trade Finance* explains the fundamentals of financing cross-border trade in practice and is ideal for discussions when not all parties will necessarily be familiar with this technique and each of its many variations.

This edition includes a new section on managing trade finance risk and the distribution landscape in the face of increased demand for open account liquidity. And the chapter covering sustainable finance has been revised and updated throughout, to reflect trade finance's role in directing financial flows towards more sustainable and climate-friendly trade business.

We hope you find this Guide a valued reference tool in your trade finance discussions!

Trade Finance and Lending,
Deutsche Bank

1

Introduction to trade finance

1.1 Background to trade

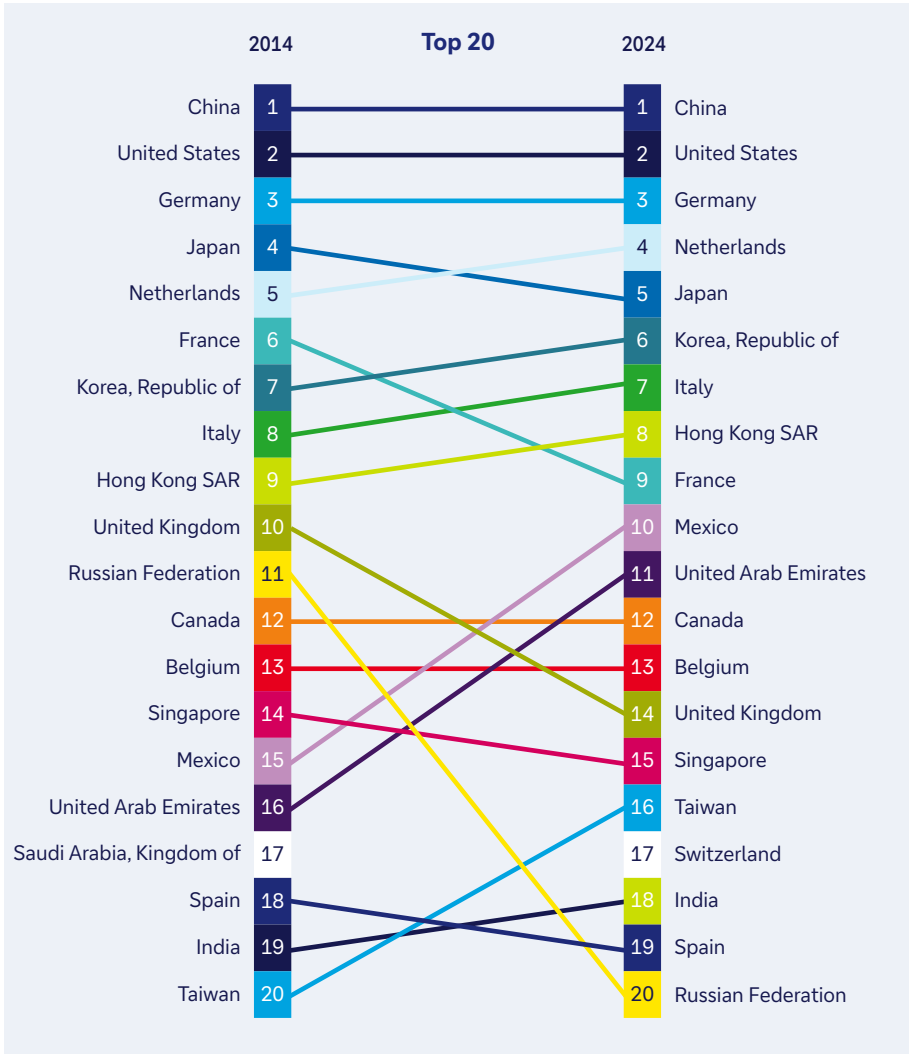
Trade shapes lives across the world, determining how goods and services move across borders – a role it has played for millennia. From ancient times to today's global economy, the exchange of goods has fuelled innovation, prosperity, and cultural connection.

As early as the Bronze Age, long-distance trade routes enabled copper from the southern Mediterranean to be exchanged for tin from northern Europe – a vital combination for making bronze, and thus for advancing tools, weapons, and civilisation itself. Later, the Silk Road – actually a series of interconnected land and sea routes – carried silk, spices, and precious stones between Asia and Europe, while Indian Ocean trade networks linked Africa, the Middle East and South Asia through commerce in textiles, gold, and ivory.¹

This pattern of mutual benefit through specialisation only deepened with time. In his 1817 publication *On the Principles of Political Economy and Taxation*, British economist David Ricardo advocated his theory of comparative advantage – the principle that nations should specialise in producing what they are relatively more efficient at, and trade for the remainder. As he famously wrote, this is “the principle which determines that wine shall be made in France and Portugal, that corn shall be grown in America and Poland, and that hardware and other goods shall be manufactured in England”²

Today, global economic growth continues to be underpinned by trade. According to the World Trade Organization (WTO),³ in 2024 the value of merchandise traded globally rose by 2% from 2023, to approximately US\$24.43trn. Commercial services achieved even greater growth in the same period, rising 9% to US\$8.69trn.

Figure 1: Top 20 rankings in world merchandise trade (exports 2014-2024)



Source: World Trade Organization

While trade continues on a strong growth trajectory, it does so against a backdrop of mounting global uncertainties. Higher interest rates, disruptions to critical supply chains driven by geopolitical conflict, and an intensifying US-China trade war since 2018 – alongside the noise from the US on trade tariffs – are shaping a trade environment marked by rising costs and heightened risk.

The Covid-19 global pandemic exposed the vulnerabilities of tightly optimised supply chains. Delays, shortages, and bottlenecks prompted a strategic rethink of sourcing in many industries. Businesses that previously adopted ‘just-in-time’ logistics began to prioritise resilience over efficiency by diversifying suppliers, reconsidering their dependency on single regions, and in some cases relocating critical production closer to home or even onshoring.⁴ Since the pandemic, the governments of the US, UK and the EU have all focused on defining ‘critical supply chains’; those vital to national security as they maintain food, defence and energy supplies. Similar importance is now afforded to transition metals and rare earth elements that are core to the digital and renewable future.

Ongoing geopolitical tensions, such as Russia’s conflict with Ukraine and the unrest in the Middle East, have created further challenges. Strategic competition between major powers – most notably between the US and China – is recasting trade as an instrument of national policy and not just an economic activity. In May 2024, WTO economists observed that trade flows are increasingly being reoriented along geopolitical lines.⁵

Since the resumption of the Russia/Ukraine conflict in February 2022, trade between blocs of countries with differing political alignments – inferred from UN General Assembly voting patterns – has grown 4% more slowly than trade within politically aligned blocs.⁶ As the second Trump administration in the US continues to challenge longstanding trade dynamics – principally through a tariffs regime that targets both allies and competitors – this trend may accelerate, potentially reshaping global trade dynamics for the years ahead.⁷

With this growing uncertainty comes an expanded set of risks. Cross-border trade inherently involves challenges for importers and exporters, from currency fluctuations and non-payment to damage in transit, financial crime, and inconsistent regulatory frameworks. Today’s more volatile environment adds further strain, with new and intensifying risks placing additional pressure on global trade. These risks – along with the tools and strategies available to mitigate them – are explored further in [Section 1.3](#).

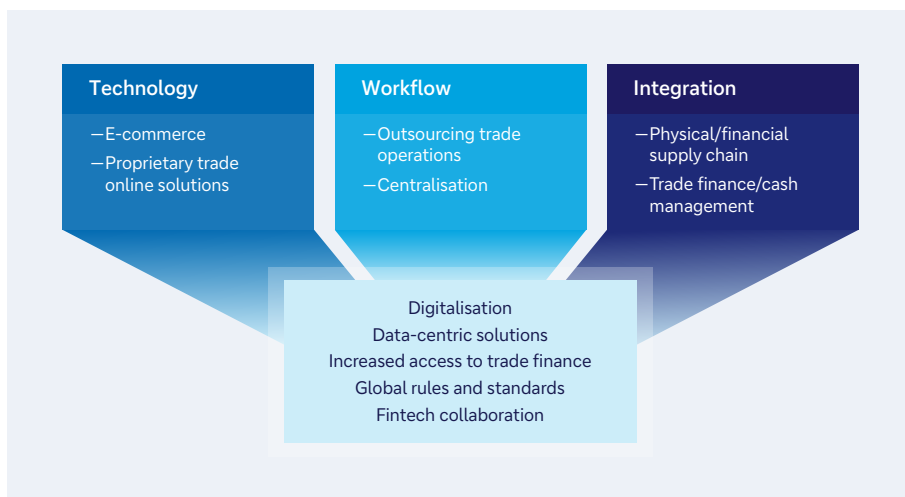
1.2 Financing trade

In 1776, Scottish philosopher and economist Adam Smith published *An Inquiry into the Nature and Causes of the Wealth of Nations*, which posited that humans have a propensity to truck, barter, and exchange one thing for another. The discovery of promissory notes in the form of clay tablets at an ancient Mesopotamian site, providing for repayment of an amount and interest for a specific date, lends credence to his claim.

The earliest forms of trade, before the advent of money, relied on barter for the direct exchange of goods and services. The emergence of monetary systems and written records provided the foundation for more sophisticated and scalable methods of trade. These developments laid the groundwork for innovative trade financing solutions that continue to evolve today.

Trade finance, as defined by the International Chamber of Commerce (ICC), is a financial service that facilitates the real economy by enabling businesses to finance, monetise, mitigate risk, and settle trade flows; thereby supporting the movement of goods and services across borders and over time, regardless of maturity.⁸

Figure 2: Trade finance: transformative developments over the past 30 years



Source: David Meynell



[Figure 2](#) outlines key developments since the mid-1990s and in the 21st century; technology continues to change how trade is done and how it is financed. The trade finance industry is reaping benefits as a greater quantity of financial data becomes globally accessible. Challenges nonetheless persist in sharing information transparently, digitally, and efficiently across the many institutions involved in a trade transaction.

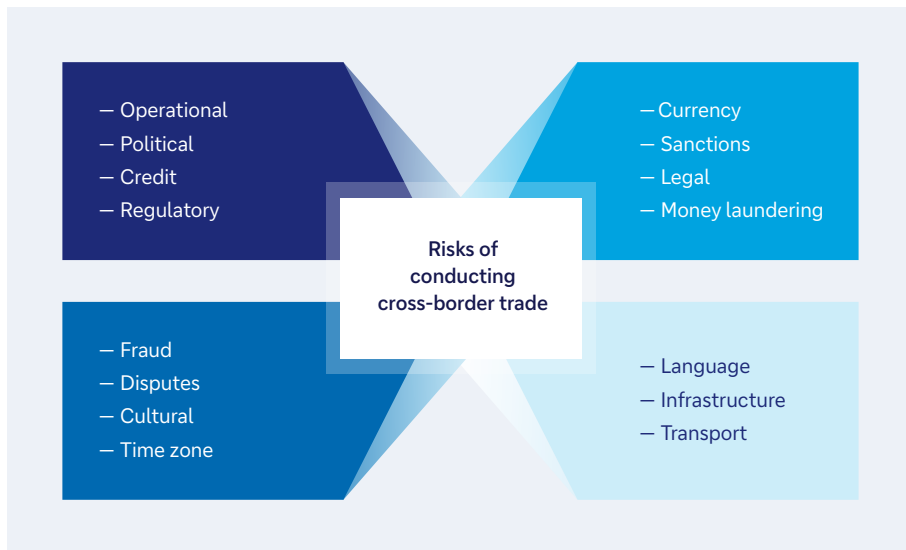
In the 2020s priorities for financing trade are shifting, driving new opportunities for innovative financing solutions. In a favourable rates and inflation environment, return on investment is defined by increased efficiency and flexibility of trade finance and supply chain management. Corporate treasurers focus on shoring up balance sheets and ensuring access to credit.

In 2024 Crisil Coalition Greenwich's annual global survey of 2,500 CFOs and group treasurers from the world's major corporates found that "financing and refinancing" is the top priority for CFOs and group treasurers looking for a safe harbour while they wait for central banks to deliver rate cuts.⁹

1.3 Risk mitigation

Even in our increasingly digital world, the fundamental requirement for risk mitigation remains unchanged. The basis of a successful trade transaction is a comprehensive understanding and strategic management of potential risks. While not every risk will be relevant to each individual trade transaction, maintaining a robust awareness of potential issues is paramount. By adopting a proactive and informed approach to risk assessment, businesses can navigate the complexities of international trade with greater confidence and effectiveness. Figure 3 outlines risks regularly encountered by firms conducting cross-border trade.

Figure 3: Risks of conducting cross-border trade



Source: www.tradefinance.training

Entities engaged in cross-border trade face a wide range of risks – financial, operational, political, and legal. These include credit risk, counterparty default, currency fluctuations, payment delays, regulatory changes, documentation errors, fraud, and geopolitical instability. Thorough research and preparation are essential to identifying and alleviating these risks. For example, when trading with unfamiliar overseas entities, businesses can use status enquiries and credit references based on historical trading data to assess counterparties. Similarly, all parties involved in international trade must monitor exchange rates and take appropriate measures to mitigate currency risk. Available tools include currency exchange traded funds (ETFs) to limit exposure, forward contracts that provide a rate lock and the more flexible options contracts. See Section 9 for further guidance on payments and foreign exchange risk management.

The first step to alleviating risk is to understand the business of a customer and apply Know Your Customer (KYC) principles, which may also take into consideration national and regional banking regulations. At a minimum KYC should involve identifying the sourcing of funds, purpose of transactions, compliance checks and regular ongoing reviews.

Risk management may be further improved by adopting new technology solutions. Data analytics, automation and emerging artificial intelligence applications can streamline operations, optimise inventory management and make supply chains more visible and efficient. These advancements enable faster decision-making and reaction times. Companies can use real-time tracking systems, advanced analytics and blockchain technology to identify potential bottlenecks early and take measures to mitigate or avoid them. Potential benefits include lower costs, improved transparency and a heightened ability to respond effectively to changing conditions and crises.⁴⁰



1.4 The trade contract

At the core of all trade relationships lies the contract itself. This is essentially an agreement between two or more parties, which may include specific terms. It involves a promise to perform an action, such as exporting goods, in exchange for a consideration, typically payment.

1.4.1 Conditions for a valid contract

According to the London Institute of Banking & Finance, for a trade finance contract to be valid, the following conditions must be met and parties should always take legal advice as local laws may well be applicable irrespective of the governing law (e.g. English law or New York law) selected:¹¹

- There must be a firm offer and acceptance of that offer;
- There must be an intention to create a contract;
- There must be consideration – each party provides something to the other;
- There must be capacity to contract – for a limited company that means that the nature of the business is within the objectives set out in the company's memorandum and articles;
- Consent must be freely given without duress or based on false information; and
- The purpose must be legal.

1.5 Role of trade bodies

In the trade finance space, various trade bodies – also known as industry trade groups, trade associations or industry bodies – are working on guidance and initiatives to future-proof the industry. These are funded by businesses that operate in the specific industry and aim to deliver efficiencies, enable innovations and support the growth of the sector.

The three most prominent and influential groups are the International Chamber of Commerce (ICC) founded in 1919, the Bankers Association for Finance and Trade (BAFT), which marked its centenary in 2021 and the more recently established International Trade and Forfaiting Association (ITFA).

Trade organisations have a central responsibility: making access to trade fair for companies of all sizes, which will be, in the long term, an essential driver of future economic growth. Rules and standards help to safeguard applicability and guarantee relevance for traditional trade finance instruments.

Alongside these, since 1995 the WTO has served as the global body responsible for regulating international trade between nations, providing a foundational legal and institutional structure for trade agreements, dispute resolution, and market access.

The Society for Worldwide Interbank Financial Telecommunication, also known as Swift, also plays a vital role in this ecosystem. While not a regulatory or policymaking body, Swift provides the secure, standardised messaging infrastructure through which most cross-border trade-related payments are transmitted. See [Section 1.5.5](#).

Together, these organisations form the backbone of international trade and finance, fostering collaboration and resilience across an increasingly complex and interconnected global economy.

1.5.1 The ICC and Banking Commission

The ICC was founded in the aftermath of the First World War under the leadership of its first president Etienne Clementel, a former French Minister of Commerce. Since that time the international secretariat of the organisation has been located in Paris, France. ICC's primary objective is to promote "open international trade and investment systems that foster peace, prosperity and opportunity for all".¹²

Core to this is ICC's guidance on international contracts, which comprehensively sets out the rights and obligations of all parties.

ICC is comprised of five Policy Hubs, the most prominent being the ICC Finance for Development Hub, Banking Commission (ICC Banking Commission), which serves as a global forum and rule-making body for banks worldwide, with particular focus on the financing of international trade.

The ICC Banking Commission embraces three main activities:

1. **Rulemaking.** To be the authoritative rule-making body and produce accepted standards and guidelines for all forms of trade finance. See [Section 2.8](#).
2. **Advocacy.** To support the development of a sound financial system and serve as trusted industry leader for regulators.
3. **Financial inclusion and sustainability.** To integrate 'unbankable' regions and segments into the global financial system.

Over the years, the ICC Banking Commission has become a leading global rule-making body for the banking industry, not only producing universally accepted rules and guidelines for international banking practice but also providing leading edge research and analysis. This includes the annual *ICC Trade Register* – that has covered trade finance asset classes for more than a decade, representing around 23% of all trade finance transactions.¹³

1.5.2 BAFT and its activities

Based in Washington DC, BAFT is another trade body that engages with policymakers on the need to rationalise laws and regulations that best address emerging technology and business models that affect financial services worldwide.

BAFT provides thought leadership, education and training, and a global forum for international transaction bankers across the industry with expertise in the areas of trade finance, payments, compliance and regulations. Among its core standard documents available to members is the BAFT Master Loan and Risk Participation Agreement and Master Trade Loan series.¹⁴

1.5.3 ITFA and its activities

Founded in 1999, ITFA is a representative body made up of around 400 members from all over the world. ITFA brings together banks and financial institutions that are engaged in originating and distributing trade-related risk and finding creative ways to mitigate risks. Expanding from its original focus on the purchase and discounting of simple but robust payment instruments, such as negotiable instruments and letters of credit, the forfaiting industry has embraced new instruments and created new structures to become a prominent part of supply chain finance. ITFA acts as a valuable forum for its members to interact and transact business together profitably and safely.

Its members have access to a range of market practice publications and template agreements, such as guidance on the use of electronic signatures, fraud prevention, and application of the Uniform Rules for Transferable Electronic Payment Obligations.¹⁵



1.5.4 WTO and its activities

The WTO acts as a policy and negotiation platform for nations. Its primary activities pertain to facilitating the negotiation and signing of agreements – ratified in national parliaments – that strengthen trust between free trading nations and improve the trading capacity of developing countries. The WTO evolved from the General Agreement on Tariffs and Trade (GATT) that was founded in 1947. This facilitated eight rounds of negotiations and governed international trade from 1948 to 1995. It was the Uruguay round of trade talks held between 1987 and 1994 that led to the creation of the Marrakesh Agreement, which in turn established the WTO on 1 January 1995.¹⁶

The WTO sees free trade as an essential path to raising global living standards through the employment opportunities generated by trade. Although the WTO has published trade finance working papers on areas such as the impact of Basel III regulation¹⁷ and finding a solution to market tightening after the global financial crisis,¹⁸ it mainly shapes the broader environment of trade by removing trade barriers such as tariffs and promoting transparency.¹⁹

1.5.5 Swift and its activities

Swift is a global messaging network that financial institutions use to securely exchange information and instructions for financial transactions.

Founded in 1973, this global member-owned cooperative aims to create a global financial messaging service by developing a language for international financial messaging. Its messaging services were launched in 1977 and came to replace the Telex, the most widespread messaging technology at the time. Its original service comprised a messaging platform, a computer system to validate and route messages, and a set of messaging standards. Swift's financial infrastructure has since expanded across all continents, covering 200+ countries, servicing 11,000+ institutions around the world.

Payments remain central to Swift's operations, forming the backbone of its services to the global financial community. With global trade accounting for more than 50% of cross-border MT103 payment messages, trade finance continues to represent a strategically important area for the organisation. Its MT 798 'Trade Envelope' channel for corporates provides a means by which they can use documentary credit trade finance instruments such as letters of credit and guarantees (see [Section 2.5](#) and [Section 11.3.2](#)) with their banks.²⁰

Swift occupies a unique position within the financial ecosystem, with the ability to engage all participants across the trade and payments value chain. This comprehensive reach enables the organisation to drive greater efficiency while also strengthening the resilience and security of cross-border financial flows.

1.5.6 Loan Market Association (LMA)

The LMA is the membership body of the loan market in EMEA. It supports the loan markets, with a focus on enhancing liquidity, efficiency, transparency, and sustainability.

The Association represents a diverse range of participants in international loan markets, including institutional investors, private and public sector issuers, banks, non-banks, technology platforms, and market infrastructure providers across the UK, US, and EMEA.

The LMA works in six main areas: documentation, market practice and guidance, loan operations, sustainability, education, and regulatory advocacy and lobbying. Members can access the online hub of documentation for risk participation templates.

1.5.7 Loan Syndications and Trading Association (LSTA)

The LSTA is the trade association and research, standards setting and policy voice for the syndicated corporate loan industry in the US. The LSTA states that it "promotes fair and equitable market principles while connecting and representing the shared interests of loan market participants". It aims to "inspire confidence among investors in corporate loan assets, facilitate continued availability of credit to American companies, and hopes to continually educate market participants on important market trends".

The LSTA also has a hub of documentation for risk participation templates.

2

Transactional trade finance

2.1 Basic principles of the risk ladder

In [Section 1](#), the inherent risk of conducting cross-border trade was set out, but what is the best way of matching settlement method to the risk? Enter the risk ladder – a very useful and important tool to help buyers and sellers determine the most appropriate form of settlement depending upon client relationship, location of the parties, goods or services that are involved, movement of funds and documents, and the options for settlement and financing.

Figure 4: The trade settlement risk ladder

Method of payment	Receipt of goods by buyer before payment	Settlement date	Risk rating for seller	Risk rating for buyer
Open account	✓	As per contract terms	Highest	Lowest
Usance collection	✓	At maturity as per collection terms	Medium to high	Low to medium
Sight collection	✗	After presentation of documents	Lower	Low to medium
Documentary credit	✗	After presentation of documents at sight or maturity as per contract terms	Low (against compliant documents)	High
Payment in advance	✗	Prior to shipment	Lowest	Highest

Source: www.tradefinance.training

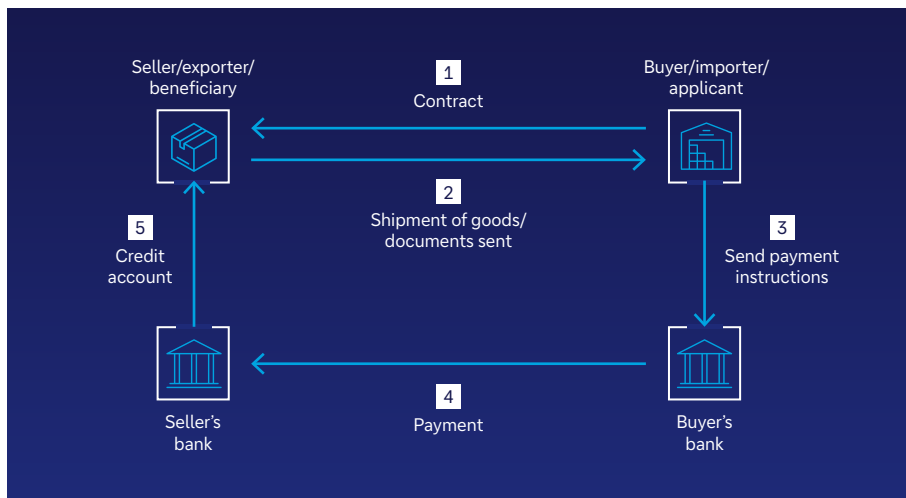
2.2 Open account

Open account is a payment arrangement in international trade under which the exporter ships goods and documents to the importer before payment, which is deferred – commonly 30, 60 or 90 days later. It is estimated that around 80–85% of trade transactions by volume are handled on open account terms.²¹

This method favours the buyer but exposes the seller to credit and country risks unless mitigated via trade finance tools (e.g., credit insurance, supply chain finance, factoring). In general terms, open account is normally utilised when each party is known to the other and trusted.

This is how it works: a seller sends goods to its buyer together with the applicable documents including an invoice specifying the payment terms. As is apparent, the seller will be placing a great deal of trust in the buyer to pay, as the goods are shipped and are often available to a buyer in advance of when payment or acceptance to the seller has been arranged.

Figure 5: Open account settlement



Source: TradeLC Advisory

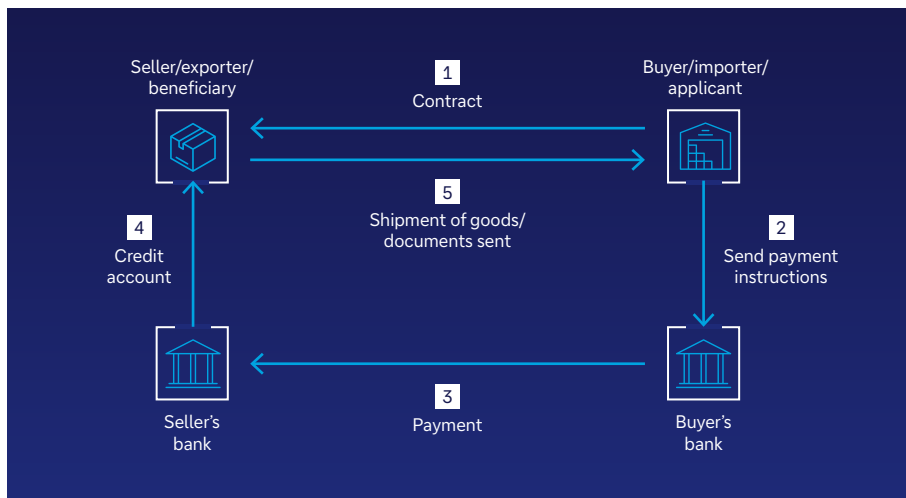
2.3 Payment in advance

In this situation, the buyer pays the seller in advance of the goods being shipped. It is only once the seller receives the funds that any arrangements will be made for the goods to be shipped or, in certain circumstances, to be manufactured.

It can be seen quite clearly that whilst this is enormously advantageous for the seller, it is not necessarily so for the buyer.

It is common for an advance payment to be secured by the issuance of an advance payment guarantee (see [Section 2.6](#)), guaranteeing to refund all or part of the advance. The advance is generally a percentage of the value of the contract to be paid by the buyer to the seller upon signing of the contract. The guarantee covers non-performance by the seller in delivering all the required goods.

Figure 6: Payment in advance



Source: TradeLC Advisory



2.4 Documentary collections

Documentary collections are used where there is an intention to obtain payment and/or acceptance of financial documents and/or commercial documents by delivering the documents under certain specified terms and conditions.

2.4.1 How it works

Under a collection, a collecting bank presents financial and/or commercial documents related to the goods to the importer for payment.

For the exporter, a documentary collection bridges the gap between open account and documentary credits by providing a potentially higher level of security than open account, through the control of the documents by banks, and without the often more complex terms and conditions of a documentary credit (see [Section 2.5](#)).

For importers and exporters, a documentary collection attracts cheaper bank costs than those associated with a documentary credit.

Documents against payment (D/P)

- Documents are payable at sight; and
- Documents are delivered to drawee only upon payment.

Documents against acceptance (D/A)

- Documents are payable at a fixed or determinable future time;
- Documents are delivered to drawee against acceptance of a financial; and
- Document or execution of a payment undertaking (e.g. a promissory note).

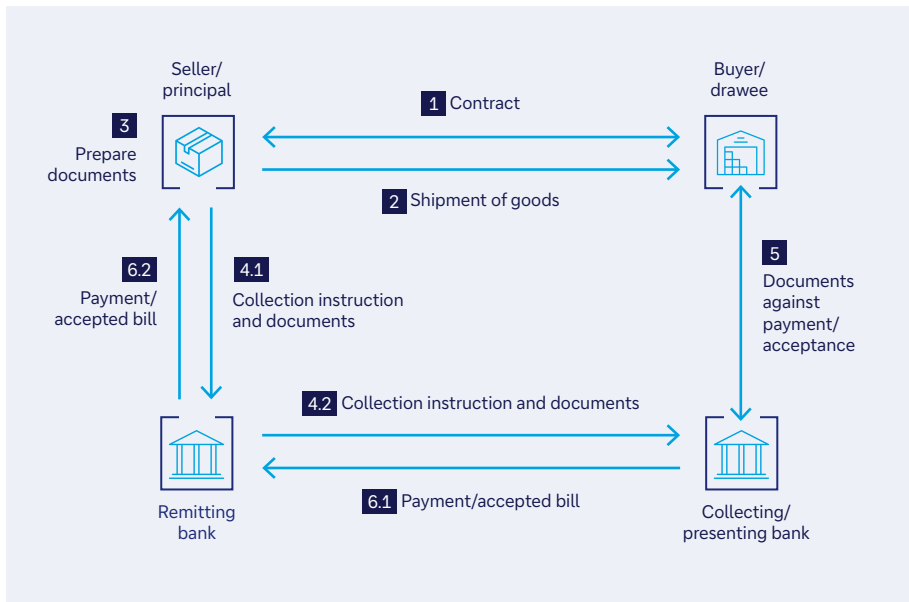
2.4.2 Key considerations

Parties involved:

- **Principal** – the party entrusting the handling of a collection to a bank.
- **Remitting bank** – the bank to which the principal has entrusted the handling of a collection.
- **Collecting bank** – any bank, other than the remitting bank, involved in processing the collection.
- **Presenting bank** – the collecting bank making presentation to the drawee.
- **Drawee** – the party to whom presentation is made for payment, acceptance, or other specified consideration.

See also [Section 2.8](#).

Figure 7: Collections workflow



Source: David Meynell

Case study

2.4.3 Case study

As noted in the risk ladder table (see [Figure 4](#)), collections sit between open account and documentary credits. However, this does not absolve participants from undergoing necessary due diligence exercises on counterparties.

Risks still exist, with the most prevalent examples being:

- **Credit** – a buyer may not pay for the goods owing to insolvency or wilful default.
- **Sovereign** – introduction of laws and/or regulations that may prevent settlement.
- **Transit** – damage, loss, or theft during the movement of goods.
- **Exchange** – movements in exchange rates can easily create an unexpected profit or loss.

The exporter needs to have an adequate degree of trust in the importer. As such, it is useful for the exporter to research not only the financial standing of the importer, but also gain insight into historical trading activities that reveals payment delays and any instances of non-payment. The political stability of a country may additionally need to be considered, as well as the choice of currency to settle the transaction. In all trading circumstances, there must be an understanding that one of the parties will take out the required insurance cover for the transit of the goods.

2.5 Documentary credits

2.5.1 Definition

A documentary credit is a written undertaking given by a bank (issuing bank) to the seller (beneficiary) on the instruction of the buyer (applicant) to pay at sight or at a determinable future date up to a stated amount of money.

This undertaking is conditional upon the beneficiary's compliance with the terms and conditions stated in the credit issued in its favour and is satisfied by a 'complying presentation'.

As defined in UCP 600 (see [Section 2.6](#)), a complying presentation is one that is in accordance with three considerations:

- The documents must comply with the terms and conditions of the documentary credit.
- If the documentary credit is stated to be subject to UCP 600, the documents must be in accordance with the applicable articles and sub-articles of UCP 600.
- The documents will be examined on the basis of international standard banking practice. It should be noted that 'international standard banking practice' is far wider than the principles enshrined in ISBP 821⁴² (International Standard Banking Practice for the Examination of Documents under UCP 600), and includes practice related to all aspects of the documentary credit cycle.

2.5.2 Revocation and confirmation of credits

Revocable

This is a credit which can be amended or cancelled by the issuing bank at any time, without prior warning or notification to the seller. It is, however, very rarely used and not recommended. It no longer appears in the UCP rules.

Irrevocable

In other words, it can be amended or cancelled only with the agreement of all parties thereto.

Confirmed

As there are often two banks involved, the issuing bank and the advising bank, the buyer can ask for an irrevocable credit to be confirmed by the advising bank. If the advising bank agrees, the irrevocable credit becomes a confirmed irrevocable credit. Confirmation means a definite undertaking of the confirming bank, in addition to that of the issuing bank, to honour or negotiate a complying presentation. In essence, it is used when the issuing bank has a poor credit rating and/or is located in a country with a high political risk rating or is considered high risk by the beneficiary.

2.5.3 Key considerations

High Court of Justice judge Sir Michael Kerr, in a landmark fraud judgment, described documentary credits as “[...] the lifeblood of international commerce”.²³

It should be noted that credits are separate from the underlying sale or other contract on which they may be based. In this respect, banks deal only with documents and not with the goods, services or performance to which the documents may relate. The documentary credit is a means to facilitate the settlement of international trade transactions. As such, it is not:

- A contract between buyer and seller.
- A guarantee that the seller will definitely receive payment.
- A guarantee that the buyer will receive the goods ordered.

2.5.4 Special types of documentary credit

Red clause

This contains a special clause that authorises advance payment to the beneficiary in advance of shipment and before presentation of documents. Originally written in red ink, it specifies the amount to be advanced.

The clause is often used for:

- Provision of pre-export financing by the buyer to the seller;
- Finance of the seller’s purchase of raw material; and
- Settlement of progressive payments during the manufacturing/installation/ commission process.

Under a secured or documentary red clause credit, advances are made against presentation of warehouse receipts or similar documents together with the beneficiaries undertaking to deliver the bill of lading and/or other documents required upon shipment.

With an unsecured or clean red clause, the documents required do not include evidence of goods.

Note that green clause credits are available, which allow for advance payment but provide for storage in the name of the bank as security.

Revolving

Here the credit contains a condition that the amount is reinstated without specific amendments and may revolve in relation to time (e.g. monthly) or in relation to value (by drawing).

Such a credit can be used to reduce administrative workload for repetitive purchases of the same kind of goods from the same supplier at regular intervals and allows for the value made available under the credit to be restored. It is popular with commodity trading houses, which value the flexibility of being able to draw down and repay the facility as needed.

Transferable

This may be made available in whole or in part to another beneficiary (second beneficiary) at the request of the beneficiary (first beneficiary). Such a credit must clearly state that it is transferable.

- A bank is under no obligation to transfer a credit except to the extent and in the manner expressly consented to by that bank.
- Unless otherwise agreed at the time of transfer, all charges (such as commissions, fees, costs or expenses) incurred in respect of a transfer must be paid by the first beneficiary.
- A credit may be transferred in part to more than one second beneficiary provided partial drawings or shipments are allowed.
- A transferred credit cannot be transferred at the request of a second beneficiary to any subsequent beneficiary.

Back-to-back

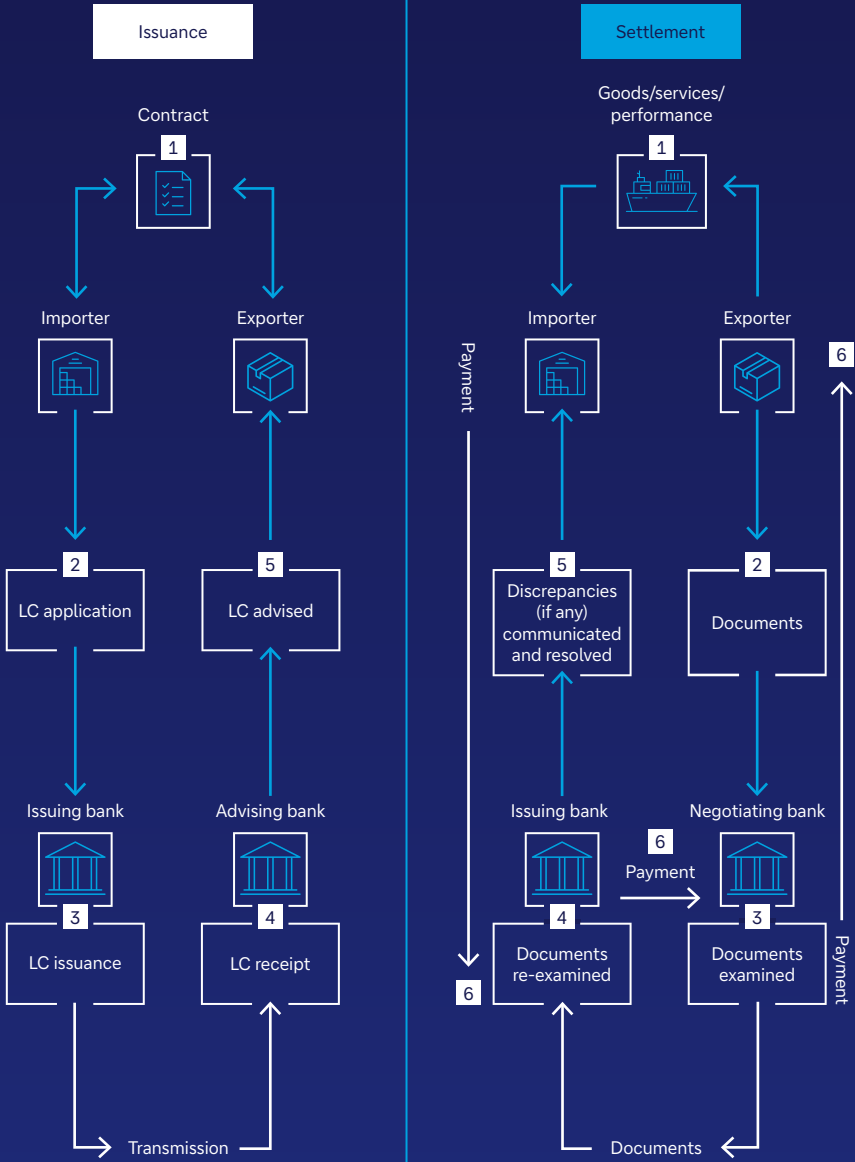
This is where a trader, who acts as a middleman between the source supplier and the final buyer, uses such a credit. Two separate credits are issued:

- The master credit in favour of the middleman; and
- The back-to-back credit in favour of the source supplier.

The terms and conditions of the back-to-back credit are similar to the master credit except for the credit amount, the unit price, the expiry date, the latest shipment date and the presentation period.

The primary source of repayment for the second issuing bank is from the proceeds received from the master credit.

Figure 8: Workflow of issuance and settlement



Source: TradeLC Advisory

2.5.5 Bank procedure

The issuance of a documentary credit is not always a simple formality or an act that can be completed in a standard or repetitive manner. It often requires attention to detail and, more importantly, to contain wording that is not ambiguous or subject to more than one interpretation.

An issuing bank has a responsibility to work with its clients to ensure that the issued documentary credit fully meets the needs of each applicant in terms of specifying the appropriate documentary requirements, that will enable the smooth importation of the goods, and provide a suitable level of assurance as to the quality, standard and/or type of goods being purchased; while ensuring that the documentary credit is in accordance with the bank's internal policies and procedures and regulatory guidelines to which it must adhere.

Often, the policy of a bank will determine whether or not it may act in the capacity of an advising bank, second advising bank and/or confirming bank.

Bank policy will usually extend to matters such as the parties and countries involved in a transaction; the goods (i.e. a bank may have specific guidelines for transactions covering the shipment of drugs, armaments, security material and hardware, sale of software, etc.); the structure of a documentary credit with regard to its terms of settlement; and preferred reimbursement instructions (especially when confirmation is to be added).

Linked to some of these issues are regional and global sanctions (see [Section 12.6](#)) regulations that have been put in place by various governments and international organisations such as the United Nations (UN), EU, the Office of Foreign Asset Control (OFAC), etc. These can directly affect the ability of a bank to act in a particular role, including as an advising bank, second advising bank and/or confirming bank. A few documentary credits are currently issued, advised or confirmed with wording to the effect that a bank will be unable to handle a presentation that may violate any conditions of these sanction regulations. In this respect, ICC has issued a recommendation paper concerning the use of such wording.²⁴

2.6 Demand guarantees

2.6.1 Definition

Demand guarantees are invariably written for a stated amount and contain an expiry date or expiry event by which documents must be presented. A demand guarantee represents the guarantor's undertaking to pay a named beneficiary a sum of money upon presentation of specified documents conforming to the terms and conditions of the guarantee. The intent of a demand guarantee is to substitute the creditworthiness of the guarantor for that of its customer, the principal (as applicant of the guarantee).²⁵

If documents comply, the beneficiary will be paid; if not, they won't. If a demand is made under the guarantee and the principal feels the claim is unjust and/or the documents are untrue, the guarantor will still go ahead and pay if the demand complies (absent any court injunction stating otherwise), and the principal is expected to be able to recover any undue payment by litigating under the underlying contract.

2.6.2 Essential basics

Guarantees are often used to cover, and to mitigate, the many risks that can occur in finalising a contract between a buyer and seller. The benefits and attributes of a guarantee can include:

- Independence from any underlying contract.
- Provision of security.
- Protection against non-performance of obligations, as opposed to a performance that results in non-payment (as is covered by instruments such as documentary credits i.e., shipment of goods and presentation of complying documents).
- Coverage of financial or non-financial obligations.
- Applicability for cross-border or domestic transactions.

They share many characteristics with documentary credits e.g., independence from the underlying contract, payment made only if certain conditions are fulfilled, compliance, typically issued by financial institutions, may be subject to a set of international rules.



2.6.3 Key considerations

The rights of a beneficiary to claim under a demand guarantee are covered by the terms and conditions of the guarantee itself and not by reference to the underlying commercial contract. To demand payment, the beneficiary need only comply with the terms and conditions of the guarantee and has no need to provide any separate or additional documentation. The only exception to this would be if the guarantee were subject to URDG 758 (see [Section 2.8](#)). These rules require a separate statement of breach to be presented.

For a bank receiving a demand under a guarantee, this means that it only need be concerned with the terms and conditions of the guarantee and has no mandate or necessity to refer to any extraneous documentation such as the underlying commercial contract to determine compliance.

Certain pieces of information are consistently found in the text of a demand guarantee, regardless of the type that is issued.²⁶ These include, but are not limited to:

- Names and addresses of the contracting parties: applicant and beneficiary.
- Guarantee reference number.
- Guarantee currency and amount.
- Brief details of the underlying transaction.
- Details of the document(s) that is/are required to be presented in order to fulfil a demand for payment.
- Place for presentation of a demand and the required format for that demand.
- Expiry date or expiry event.
- Party responsible for fees and charges.
- Law and jurisdiction clauses.
- Rules, if required.

2.6.4 Types of demand guarantee

Tender/Bid

Tender/Bid guarantees are usually required in public tenders, accompanying the tender or bid as required in the conditions of tender, since major contracts in the public sector often require the additional security of a tender guarantee or bid bond.

Normally issued for 2–5% of the value of the tender and payable on demand, these guarantees ensure the bidder cannot withdraw from the tender process. Tender regulations normally require provision of a performance guarantee within a certain period (if the tenderer wins the contract).

These guarantees also typically include a fixed expiry date, though they may have provision for an extension, and cannot be called upon once the contract is awarded to another bidder.

Performance

A performance guarantee is an undertaking to deliver the performance promised in the contract. Contractual obligations include, inter alia, the supply of goods, services or expertise and the completion of projects. In turn, the guarantee assures payment in the event that the counterparty does not fulfil contractual obligations, with the text set out under the guarantee relating to non-performance by the applicant. It usually covers a percentage of the contract value, typically around 5–10%.

Advance payment

An advance payment guarantee also covers non-performance and will reimburse money paid in advance – a percentage of the value of the contract to be paid by the purchaser to the vendor as a down payment or advance payment or deposit upon signing of the contract. The guaranteed amount is usually the same as the amount of the down payment – between 5% and 25% of contract value.

This type of guarantee often includes a reduction clause upon evidence of 'progressive' or ongoing successful completion of performance i.e. presentation of copy invoices indicating completion of a shipment, services or performance.

An advance payment guarantee does not normally become effective until advance (down) payment is received.

Warranty/Maintenance

A warranty/maintenance guarantee covers the maintenance or warranty period and guarantees recompense for defects in, for example, materials or workmanship, etc. This type of guarantee is available throughout the maintenance or warranty period during which the applicant is responsible for the stated obligations. The percentage of contract value is much lower than for a performance guarantee – normally 5%.

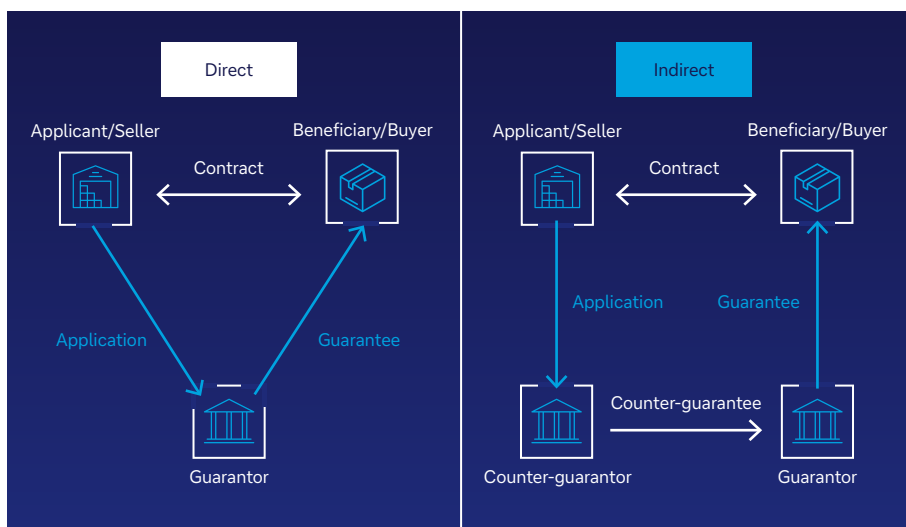
A warranty/maintenance guarantee is often used for construction projects and can be valid for 24 months or more.

Retention

A retention guarantee allows payment by the purchaser for the full contract amount instead of withholding part of that amount as security for defects, normally around 10–15% of contract value. It is payable on first demand and ensures a refund of payments made – similar to a performance guarantee when a contractor fails to complete a project. This type of guarantee can be valid for 24 months or more.

Other forms of demand guarantee can include: customs, payment, re-insurance, and many others.

Figure 9: Workflow of direct and indirect demand guarantees



Source: TradeLC Advisory



Direct guarantee

The seller's bank provides the guarantee directly to the buyer with the seller giving the bank a counter indemnity. Due to local regulations or commercial practice the buyer may insist that their own bank provides the guarantee.

Indirect guarantee

The seller arranges for their bank to instruct the local bank to issue a guarantee to the buyer. Seller's bank provides a counter guarantee to the local bank for the issuance and the seller provides their counter indemnity in the usual way.

Case study

2.6.5 Case study

Because the concept of confirmation does not exist with a demand guarantee, and in order to facilitate such transactions, it is normal practice that a counter-guarantee is issued by one bank, in favour of another bank, to support the issuance of a guarantee by that other bank.

To achieve the same result as confirmation, i.e. another (local or preferred) bank giving an undertaking to a beneficiary, a counter-guarantee is issued in favour of that bank as an inducement for it to issue its own guarantee in favour of the beneficiary.

Such a document may incorporate the required wording of the guarantee to be issued by the guarantor or issuing bank, or request issuance in the standard form of the guarantor for the type of guarantee that is to be issued.

2.7 Standby credits

2.7.1 Definition

Although very similar to demand guarantees, the functional variations are primarily in terminology and practice. The term 'standby letter of credit' originated in the US, in the wake of the Glass-Steagall Act of 1933. They were introduced due to the legal statute that banks in the US were not allowed to issue guarantees. This prohibition has since been repealed with the introduction of URDG 758, and it is accepted that banks can now issue demand guarantees in addition to standby credits.

2.7.2 Essential basics

A standby credit represents a secondary obligation covering default only. In essence, this instrument provides security against non-performance as opposed to performance (as is the case with a normal documentary credit).

Standbys can be subject to a variety of rules in addition to, such as ISP98,²⁷ UCP 600 or URDG 758. However, ISP98 is the most appropriate.

ISP98 was introduced in 1998 due to the fact that many facets of UCP were inappropriate (if not incorrect) for the handling of standby credits.

2.7.3 Key considerations

As is the case with a guarantee, it is common for a beneficiary to provide an applicant with their preferred wording for the issuance of a standby, very often with an instruction that the wording cannot be amended in any way. Alternatively, an applicant and beneficiary will agree the text as part of their sale contract negotiations and deliver it to the bank for issuance on an "as is" basis.

Where an issuing bank maintains standard clauses for inclusion in its standby issuance, it is advisable to make these known or available to regular applicants of a standby, so that they do not agree a text that may not be possible to issue without some form of amendment, enhancement or internal legal approval.

Issuing banks will look for certainty in the text with regards to the expiry provision, the form and presentation of any demand and the application of any additional conditions. In some instances the standby will include the wording for the demand that is to be presented, should it be necessary for the beneficiary to make a claim.

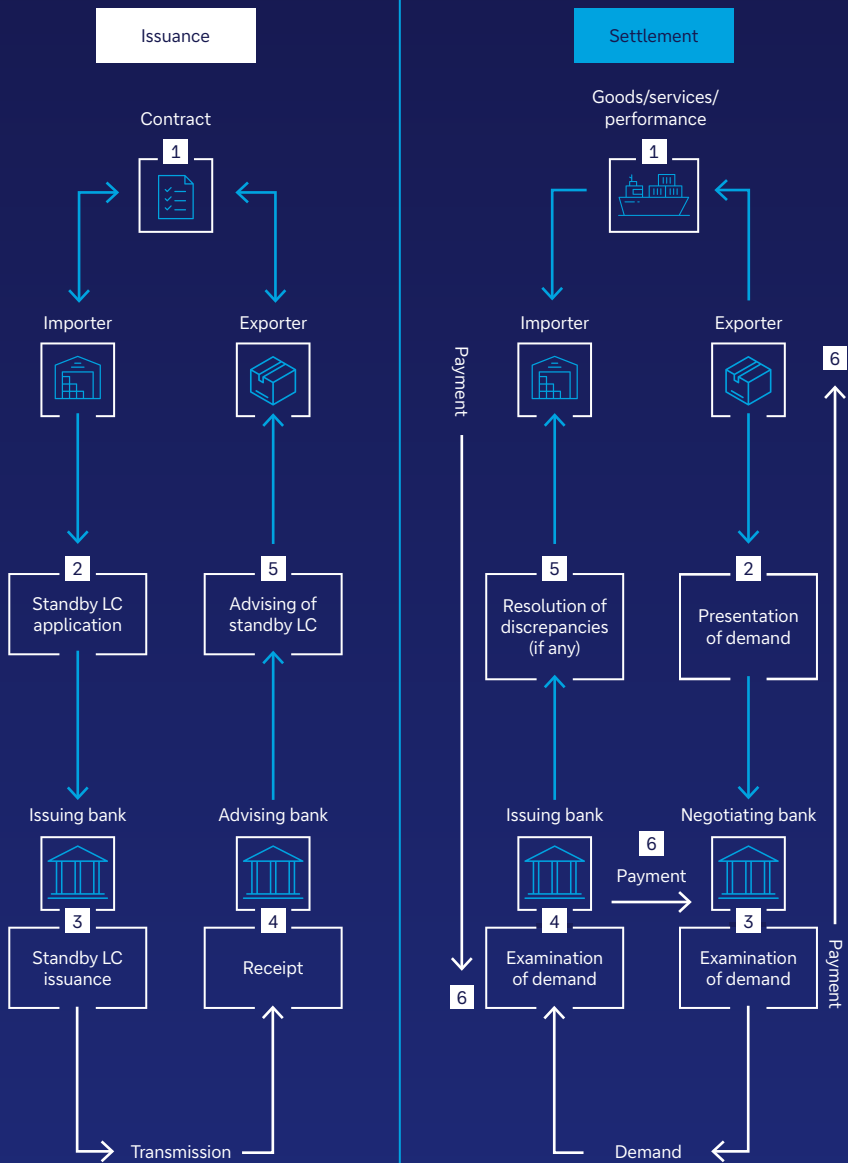
When documents such as a copy of a transport document and/or a copy of an (unpaid) invoice are to be presented together with a demand, the standby should specifically indicate the data requirements for such documents as they will not be examined in the same manner as they would under a documentary credit.

2.7.4 Types of standby

A wide variety of types exist but those more commonly seen in trade finance transactions are listed below.²⁸ Most of these will be familiar to those acquainted with demand guarantees.

- **Performance** – agreeing to undertake, deliver and/or complete contractual obligations.
- **Advance payment** – undertakes repayment of all or part of a percentage of the value of a contract that has been paid by the beneficiary to the applicant as a down payment, advance payment, or deposit, upon the signing of the contract.
- **Bid or tender bond** – ensures a bidder (applicant) cannot alter their tender proposal, or withdraw from the tender process, before the tender is awarded.
- **Counter** – a standby issued by one bank, in favour of another bank, to support the issuance of a standby, guarantee, documentary credit or other form of undertaking, by that other bank.
- **Financial** – supports a financial obligation to pay or repay.
- **Insurance** – reinforces applicant obligations in respect of insurance or re-insurance activity.
- **Direct-pay** – not necessarily related to a default and is likely to be the primary means of payment rather than secondary, which is normally the case.
- **Commercial** – acts as a security for payment of goods or services not settled by a buyer under other arrangements i.e., via open account trading or documentary collection.

Figure 10: Workflow of standby credits



Source: TradeLC Advisory

Case study

2.7.5 Case study

An applicant and beneficiary should be aware that banks will often maintain standard text or clauses that they are required to insert into a standby, from a regulatory or internal policy perspective, and should seek the intended issuing bank's concurrence on the wording before any formal agreement is reached on the final text.

ISP98 Model Forms – designed by a team of standby bankers and attorneys and aligned with ISP98 (ICC Publication No. 590), the most widely used rules for standbys.²⁹

The Institute of International Banking Law & Practice (Institute) began releasing the ISP98 Model Forms on 15 May 2012. They are intended to help standby users, including their regulators, to develop sound, workable, and appropriate texts for standbys in the light of specialised standby practices and laws worldwide and can also be used for demand guarantees subject to ISP98.

2.8 ICC Rules and standards

As explained in [Section 1.5.1](#), the ICC has become a leading global rule-making body for the banking industry, not only producing universally accepted rules and guidelines for international banking practice, but also providing leading research and analysis.

In trade finance, it is vital to gain an understanding of existing and developing rules and practice and then to implement appropriate procedures and guidelines to ensure more certainty and reduce lending risk.

2.8.1 UCP 600, URR 725, ISBP 821, eUCP

The most widely used set of ICC rules, Uniform Customs and Practice for Documentary Credits (UCP), was introduced in 1933 to alleviate the disparity between national and regional rules on letter of credit practice. Since then, there have been six revisions, the current version known as UCP 600 has been in effect since 1 July 2007.

Justification for the existence of UCP 600 revolves around four essential tenets:

- Harmonisation as opposed to differing customs.
- Common understanding of terms and intentions.
- The ability to rely on a set of contractual rules that would establish uniformity in practice, sparing practitioners the need to cope with a plethora of often conflicting national regulations.
- A platform in which to conduct business between countries with widely divergent economic and judicial systems.

The rules are supplemented by:

- ICC Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits (URR 725).
- International Standard Banking Practice for the Examination of Documents under UCP 600 (ISBP publication No. 821).
- ICC Supplement to the Uniform Customs and Practice for Documentary Credits for Electronic Presentation (eUCP Version 2.1).



2.8.2 URDG 758

The first release of an ICC publication addressing rules for demand guarantees was in 1992 with URDG (Uniform Rules for Demand Guarantees) ICC Publication No. 458.

The rules achieved relative success but never attained global adoption, due in part to the article covering demands for payment, which was seen by many in the trade community as not in line with practice.

In 2010, a revision of the rules was introduced, URDG 758. This revision provided an opportunity to bring all comments, experiences, criticisms and feedback regarding URDG 458 and the practice of demand guarantees into an updated and comprehensive set of rules. This version is more exact and avoids the possibility of misinterpretation, which existed with URDG 458. In addition, it is made more transparent and readable by following the logical sequence of a guarantee lifecycle.

2.8.3 ISP98

The International Standby Practices (ISP98) became effective on 1 January 1999. It is considered to be more suitable for standby credits than UCP 600, which focuses primarily on commercial letters of credit and contains a number of rules that are not suitable or applicable for typical standbys.

ISP98 contains the following sections: General provisions; Obligations; Presentation; Examination; Notice, Preclusion and Disposition of documents; Transfer, Assignment and transfer by operation of law; Cancellation; Reimbursement obligations; Timing; Syndication and participation.

2.8.4 URC 522

The Uniform Rules for Collections (URC) were originally introduced in January 1979, under ICC Publication No. 322. The latest revision, Publication No. 522, came into effect on 1 January 1996.

The purpose of the URC is to set a standard under which all parties to a documentary collection are aware of their roles and responsibilities. The rules are applicable when indicated in the collection instruction.

In July 2019, the ICC released a Supplement for Electronic Presentation (eURC) Version 1.0 (refer to [Section 11.3.1](#)). This has since been revised to Version 1.1.

2.8.5 URF 800

The Uniform Rules for Forfaiting entered into effect on 1 January 2013 and set out clear procedures along with model agreements for both corporates and financial institutions engaged in monetising receivables using forfaiting. URF 800 contains model agreements.³⁰

2.8.6 URBPO

The Uniform Rules for Bank Payment Obligations demonstrates ICC's support for the market launch of SWIFT's payment method using electronic data matching.³⁴ They were adopted in April 2013. The rules define the BPO as "an irrevocable and independent undertaking of an obligor bank to pay or to incur a deferred payment obligation and pay at maturity a specified amount to a recipient bank in accordance with the conditions specified in an established baseline".

2.8.7 URDTT

The Uniform Rules for Digital Trade Transactions (URDTT) Version 1.0 came into force on 1 October 2021.³² The URDTT are rules designed to be independent and neutral as to the medium used to perform the digital trade transaction. They co-exist alongside the eRules (eUCP and eURC) and will further promote the usage of electronic records, documents and data.

2.9 Dispute handling and arbitration

The ICC rules remain the most successful set of private rules for trade ever developed. However, no rules can protect you from bad practice, poor application of the rules, mishandling, or dishonest parties.

Problems and misunderstandings do occur, which can give rise to a dispute. In such circumstances, it is always hoped that the parties can reach a mutual understanding and agreeable conclusion. The worst-case scenario is that the dispute will end up in a court of law.

However, there does exist an intermediate stage, one of arbitration, whereby the parties concerned may agree to an independent assessment of the issue under dispute.

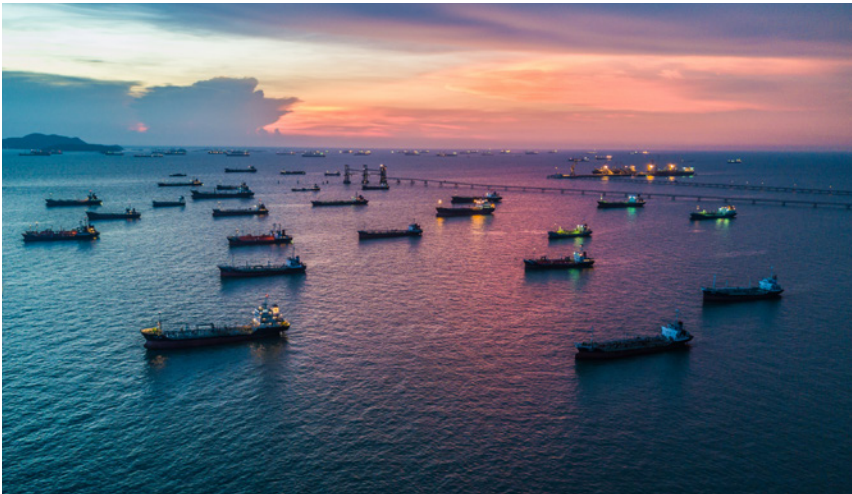
While there are several formal arbitration services, including the ICC International Court of Arbitration, a less formal alternative exists in the form of a rapid, cost-effective, document-based procedure known as DOCDEX (ICC Rules for Documentary Instruments Dispute Resolution Expertise).

The purpose of DOCDEX is to provide parties with a specific dispute resolution procedure that leads to an independent, impartial and prompt expert decision settling disputes involving trade finance instruments, undertakings or agreements.³³

DOCDEX was introduced in 1997 as an alternative dispute resolution system for parties using ICC rules relating to letter of credit transactions. In 2002, the scope of the DOCDEX rules was broadened to also encompass cases relating to URC and URDG.

In November 2014, the Banking Commission approved a new set of DOCDEX rules that additionally caters for transactions subject to ISP98 and also trade finance transactions that are not subject to ICC rules.

The process is monitored and handled by the ICC International Centre for Expertise.



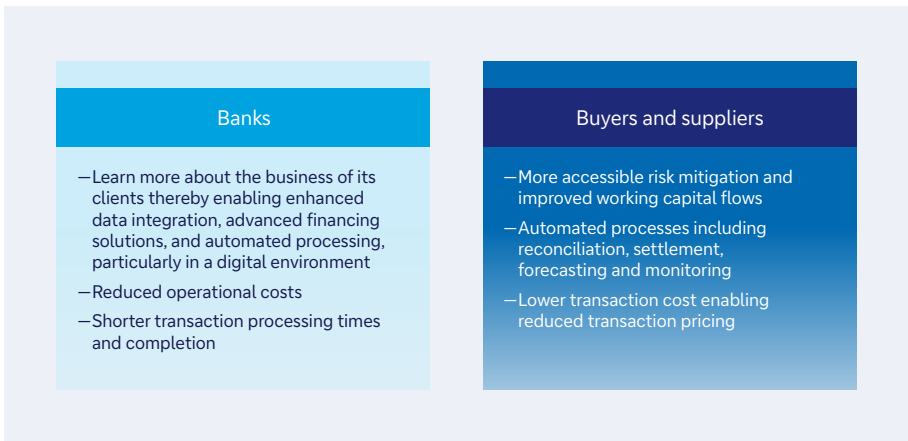
3

Supply chain finance

3.1 Definition

Supply chain financing (SCF) is a generic term that typically covers the financing of open account transactions along the supply chain from development to distribution. Enabling accessible financing along the entire physical supply chain ensures exponential benefits to all entities involved in a trade transaction.

Figure 11: Benefits of supply chain finance



Source: TradeLC Advisory

Closer matching of the physical, financial and information supply chains will continue to fuel the development of innovative financing solutions. Integration of data and information is, and will be, the basis of future trade solutions.

Traditional trade finance has provided enormous benefits to traders but the problem has been that many of these solutions are predicated upon a paper-based environment. Dematerialisation into a digital format has proved to be the way forward. In modern times, efficient and speedy global modes of transport, combined with containerisation, have transformed the physical supply chain.

However, due to the intrinsic need for paper, the financial supply chain has not kept pace with physical supply chains. The major challenge is to transparently, digitally and efficiently share information across the numerous involved entities in a trade transaction including suppliers, buyers, logistics, financial institutions, insurers, etc.

Figure 12: What financial intermediaries can provide buyers and sellers



Source: TradeLC Advisory



3.2 Physical and financial supply chains

Globalisation and the proliferation of technology have transformed business as we know it. But digitalisation (see [Section 10](#)) is a priority for one industry in particular: trade finance. Greater use of technology could bring numerous benefits to the industry with the increased transparency a digital process brings and might even help plug the trade finance gap, estimated by the Asian Development Bank to have increased to US\$2.5trn in 2022. This represents global unmet demand for trade finance: the difference between requests and approvals for financing to support imports and exports.³⁴

The integration of physical, financial and information supply chains is stimulating innovative financing solutions. Regular discussions at industry body conferences address how the coordination of data and information will be the basis for future trade finance offerings once digital information becomes more readily attainable. The key to this success has been, and will continue to be, common standards for the sharing of data and information. Each party involved in a trade transaction needs to have access to data easily, cheaply and quickly. Further information on the transformational properties of data in trade finance can be found in [A Guide to Digital Trade Finance](#) (July 2024).³⁵

3.3 Moving towards standardisation

A relatively modern development, supply chain finance has often suffered from differing interpretations across industries and geographies. This has prompted various attempts in recent years to provide a common framework for understanding. The Euro Banking Association (EBA), in 2013, defined supply chain finance as, “The use of financial instruments, practices and technologies to optimise the management of the working capital and liquidity tied up in supply chain processes for collaborating business partners. SCF is largely ‘event-driven’. Each intervention (finance, risk mitigation or payment) in the financial supply chain is driven by an event in the physical supply chain. The development of advanced technologies to track and control events in the physical supply chain creates opportunities to automate the initiation of SCF interventions.”³⁶

In 2016, BAFT, EBA, Factors Chain International (FCI), ICC and ITFA jointly produced a paper now under the auspices of the Global Supply Chain Finance Forum (GSCFF) entitled *Standard Definitions for Techniques of Supply Chain Finance*³⁷.

As noted on the ICC and GSCFF websites, the intent of this initiative is to help create a consistent and common understanding in respect of SCF starting from the definition of terminology, to be followed by advocacy in support of global adoption of the standard definitions.

Definitions include:

- Receivables discounting
- Forfaiting
- Factoring
- Factoring variations
- Payables finance
- Loan or advance against receivables
- Distributor finance
- Loan or advance against inventory
- Pre-shipment finance
- Bank payment obligation

3.4 Receivables discounting

Sellers of goods and services sell individual or multiple receivables (represented by outstanding invoices) to a finance provider at a discount (synonyms include Receivables Finance, Receivables Purchase, Invoice Discounting).³⁸

In June 2019, the GSCFF released a new guidance document, *Market Practices in Supply Chain Finance: Receivables Discounting Technique*, which focuses on receivables discounting, a technique and form of receivables purchase, flexibly applied in which sellers of goods and services sell individual or multiple receivables (represented by outstanding invoices) to a finance provider at a discount.³⁹

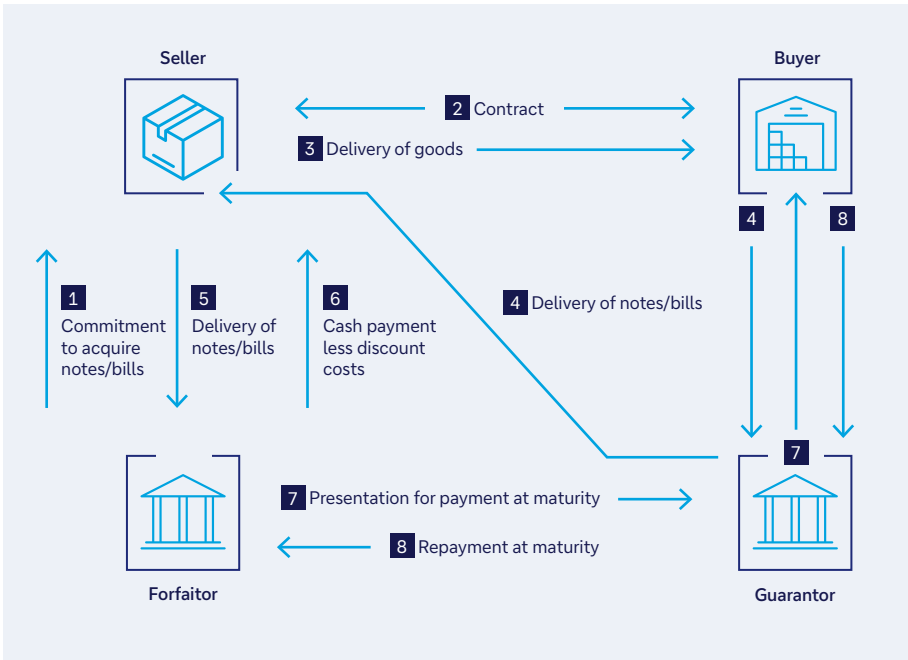
3.5 Forfaiting

Forfaiting is the without recourse purchase of future payment obligations represented by financial instruments or payment obligations (normally in negotiable or transferable form), at a discount or at face value in return for a financing charge (synonyms include without recourse financing, discounting of promissory notes/bills of exchange).⁴⁰

The term 'forfait' comes from the French expression to 'relinquish a right'. In the context of forfaiting, the exporter will relinquish their rights to receive the proceeds on the due date in return for an immediate payment, at an agreed interest rate for the discount, and thereby pass all risks and responsibility for collecting the debt to the forfaiter.



Figure 13: Summary of forfaiting transactional flow



Source: www.tradefinance.training

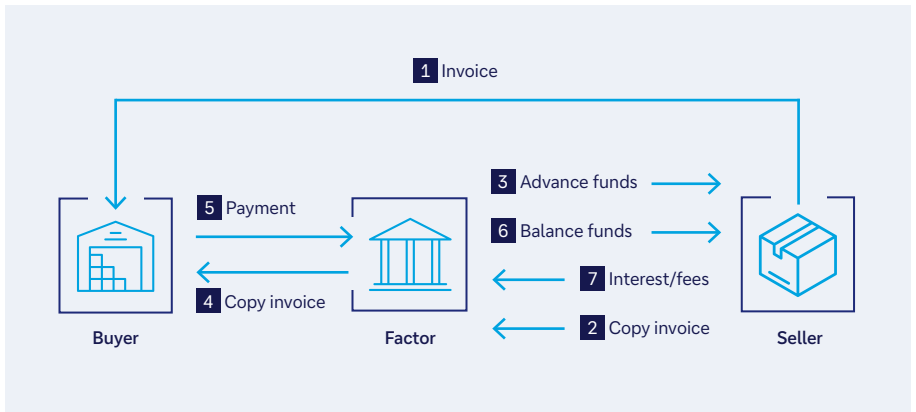
Forfaiting is usually experienced in transactions with tenors of more than 180 days and up to a limit of 10 years. The average is in the region of three to five years. Given the periods involved, forfaiting is used in large contracts and projects, with long-term repayment plans to assist importers and high value transactions. Debt should be evidenced by a legally enforceable and transferable payment obligation such as a bill of exchange, promissory note, or a letter of credit.

Further support and information on forfaiting is available from the International Trade and Forfaiting Association at www.itfa.org

3.6 Factoring

Sellers of goods and services sell their receivables (represented by outstanding invoices) at a discount to a finance provider (commonly known as the ‘factor’). A key differentiator of factoring is that typically the finance provider becomes responsible for managing the debtor portfolio and collecting the payment of the underlying receivables (synonyms include receivables finance, invoice discounting, debtor finance).⁴¹

Figure 14: Summary of factoring transactional flow



Source: TradeLC Advisory

The factor takes on the credit control and debt collection, and advances funds to the seller prior to maturity. The seller informs the buyer that the invoice has been transferred to a factor and sends copies of invoices to the factor (although the factor may issue the invoices on behalf of the seller). Primarily without recourse with up to 90% of invoice value advanced. ‘Two-factor international factoring’ is when the seller’s domestic factor uses a local factor in the country of the buyer.

Further support and information on factoring is available from Factors Chain International at www.fci.nl



3.7 Payables finance

A buyer-led programme, within which sellers in the buyer's supply chain can access finance by means of receivables purchase. The technique provides a seller with the option of receiving the discounted value of receivables prior to the actual due date and typically at a financing cost aligned with the credit risk of the buyer.

For further information on payables finance, together with examples of use cases, see Deutsche Bank's [Payables Finance: A guide to working capital optimisation](#).⁴²

3.8 Loan or advance against receivables

Financing made available to a party involved in a supply chain on the expectation of repayment from funds generated from current or future trade receivables (synonyms include receivables lending, receivables finance, trade receivable loans).⁴³

3.9 Distributor finance

Financing for a distributor of a large manufacturer to cover the holding of goods for re-sale and to bridge the liquidity gap until the receipt of funds from receivables following the sale of goods to a retailer or end-customer (synonyms include buyer finance, dealer finance, channel finance).⁴⁴

3.10 Loan or advance against inventory

Financing provided to a buyer or seller involved in a supply chain for the holding or warehousing of goods (either pre-sold, un-sold, or hedged) and over which the finance provider usually takes a security interest or assignment of rights and exercises a measure of control (synonyms include inventory finance, warehouse finance, financing against warehouse receipts).⁴⁵

3.11 Pre-shipment finance

A loan provided by a finance provider to a seller of goods and/or services for the sourcing, manufacture or conversion of raw materials or semi-finished goods into finished goods and/or services, which are then delivered to a buyer (synonyms include purchase order finance, packing credit finance).⁴⁶

In many instances pre-shipment financing is required by the seller for goods to be produced. This is particularly relevant for goods that have long production or delivery periods. It can also be a requirement for large value transactions wherein the production costs may be very high. Pre-financing can be utilised to establish new or enhanced production facilities, acquire raw materials from suppliers or even to meet running costs to complete any new contracts.

4

Natural resources finance

Commodity collateralised trade finance structures are used in both emerging markets and those within the Organisation for Economic Cooperation and Development (OECD). They rely on self-liquidating cash flows generated from the trading of commodities to support the finance structure and mitigate associated credit and transfer risks. Lender syndicates sometimes comprise several financial institutions, each taking a 'ticket' of the overall loan package.

4.1 Pre-export finance/prepayment finance (PXF/PPF)

This is where performance-based lending is structured around an export contract between an exporter (the seller) and an off-taker (the buyer) and the proceeds of the exports are typically used to enhance the repayment of the loan. In addition, the credit risk of the borrower can be monitored through the performance by the borrower under the export contract.⁴⁷

4.1.1 PXF

A pre-export finance structure refers to a loan made to a producer (exporter) of commodities based on the value (price and quantity) of commodities to be sold and delivered to an eligible off-taker. When the exporter ships/delivers the goods, the eligible off-taker then pays to an off-shore collection account pledged to the security agent on behalf of the lenders. The proceeds of the exports can be applied for the debt service under the loan agreement. The lender has full recourse to the exporter, who is always legally obliged to pay back the loan even in case the eligible off-taker defaults. There are structural enhancements (security) for the lender in the form of pledge(s) over the export contracts, pledged receivables arising from such contracts and, in some cases, a pledge over commodities exported.

The ultimate credit risk always remains with the exporter. If the value of the export contracts pledged (after applying the agreed cover ratio) falls below the drawn amount the exporter is typically obliged to top up the collateral by delivering additional volumes under the export contract or to pledge cash to the security agent in order to secure the repayment of the loan.

PXF facilities are typically term loans with a pre-determined amortisation schedule. The exporter must ensure the size and timing of their shipments are sufficient to meet the debt service requirements. There is no prepayment or acceleration of payments if the exporter receives a payment from the off-taker that is greater than the scheduled amortised loan payment.

4.1.2 PPF

Under a prepayment facility the loan is provided to the off-taker under an export contract. The off-taker advances the loan to the exporter to pre-pay (part of) a pre-agreed export agreement for the delivery of a certain amount of goods. The exporter then ships/delivers the commodity to the off-taker and the loan is discharged by payment from the off-taker (through the collection account) for the delivery.

A prepayment facility is typically provided with limited recourse to the off-taker and with full recourse to the exporter. The off-taker is only liable to repay the loan to the extent of its limited recourse portion in case the exporter does not perform under the export agreement, i.e. fails to deliver the goods. If the exporter delivers, the off-taker is liable to pay for such deliveries. If the exporter delivers and the off-taker does not pay for such delivery, the lender(s) has/ have a claim for payment of that specific shipment to the off-taker and could step in by virtue of the pledged export agreements to claim back the delivered commodities and attempt to resell the goods to another off-taker. The limited recourse to the off-taker varies, typically between 10 and 25% of the loan amount, therefore, the lender has a performance risk on the exporter's capacity to deliver the goods and payment risk on the off-taker's capacity to pay for the products delivered.

The risk exposure for the lender is towards the exporter but the borrower of record in the lender's books is the off-taker.

PPF loans can take the form of term loans with an amortisation schedule but sometimes the amortisation of the loans follows the value of delivered commodities, i.e. when the value of the deliveries exceeds an expected reference price (the 'price deck') the loan will get repaid earlier than anticipated and when the value is lower the repayment will take longer.

4.2 Borrowing base finance (BBF)

Borrowing base financing refers to credit facilities extended to a processor of, or a trader in, commodities to finance the purchase, processing, storage, logistics and the subsequent sale to end buyers of identified commodities or an identified commodity flow. Repayment is secured by a combination of pledged inventory and receivables, leading to self-liquidating cash flows generated from the sale of commodities to acceptable counterparties. Sales proceeds may be directed to be received on a collection account that is pledged to the security agent. The borrowing base amount is calculated based on an agreed reference price (usually the lower of cost price or market value of the pledged commodities) and advance rate and is re-determined on a regular and frequent basis. On a case-by-case basis, fixed assets may also be considered as security, and a portion of those assets may be included in the borrowing base.

A borrowing base facility is typically a revolving credit facility where the value of the loan is determined by the lower of:

1. The value of the borrowing base and
2. The facility amount.

The value of the borrowing base is the aggregate of the value of the eligible borrowing base assets (inventory, receivables, cash, etc.) multiplied by the relevant advance rates. The facility is fully secured by the very same borrowing base assets. The facility agreement will require the client to periodically (typically weekly, bi-monthly or monthly) submit borrowing base reports to adjust the borrowing base amount using the updated volumes and market prices for such assets as of the time of determination. During the life of the facility the client can draw down only the lower of the facility amount or the borrowing base amount.

For example, if a facility is created with a US\$500m facility amount and the value of the borrowing base is US\$300m, then the client can draw down only up to US\$300m. If the borrowing base is re-valued at US\$350m, then the client can draw down up to US\$350m. The client can never draw down more than US\$500m, even if the borrowing base is worth more, since the facility amount is limited to US\$500m.

If the value of the borrowing base falls below the outstanding loan amounts the borrower is required to remedy this shortfall by delivering additional eligible assets to the borrowing base, to pledge additional cash to the Security Agent or to repay (part of) the loans outstanding within the relevant remedy period (usually a few business days).

A BBF can be provided on a committed or an uncommitted basis. Tenors vary from one year to four or even five years. BBFs with a tenor of more than one year may (ideally) include a run-off period of six to 12 months before the end of the final maturity date when the available facility limit will be reduced gradually to zero. This supports an orderly wind down of the BBF in case it cannot be refinanced or repaid in time.

The credit risk lies with the borrower(s) and, where relevant, the guarantors under the BBF and is secured by the collateral package of the borrowing base.

4.3 Reserve-based lending (RBL)

Reserve based lending is specifically dedicated to oil and natural gas exploration and production companies for the purpose of financing development capex and/or acquisitions.

RBL typically provides for up to seven-year senior secured revolving borrowing base facilities collateralised by an approved basket of upstream oil and natural gas assets/reserves. The borrowing base amount is conservatively derived from the net present value of the cash flow generated by the assets divided by coverage ratios and is re-determined on a regular basis to reflect assets performance and the evolving macroeconomic environment. The projected cash flows underpinning the borrowing base amount are derived using an agreed banking case for the underlying secured assets based on independent reserves reports.

The RBL's borrowing base structure is especially designed to accompany the corporate growth while typically providing the lenders control of the cash flow and a strong security package (including sales proceeds paid in pledged accounts, share pledges and/or asset level security) and covenants (including cash waterfall, regular re-determination of the borrowing base, reserves tail).

4.4 Warehouse financing

Financing is provided to a manufacturer against the security of warehouse receipts representing the underlying commodity. Warehouse financing is a form of inventory financing arrangement in which a manufacturer, commodity broker or producer assigns its goods as collateral to be controlled by an agent (designated warehouse) on behalf of the lending institution.

Such arrangements generally involve the warehousing of non-perishable goods or commodities so that repayment can be tied to the utilisation or sale of the goods. In other words, the commodity itself is used as collateral for the financing, resulting in an increase in working capital for the manufacturer, commodity broker or producer. Repayment can be structured so that it is made against the actual usage of the raw material.

Events in respect of warehouse receipts fraud involving the multiple pledging of the same collateral to raise financing have highlighted the potential for problems with this type of financing if it is not closely monitored or controlled.⁴⁸ In recent years, warehouse receipts have been at the centre of several high-profile fraud cases. These typically involve either the duplication of receipts, which are then pledged to multiple financial institutions, or the issuance of receipts for goods that do not actually exist.⁴⁹

As with any type of financing, due diligence procedures should always be carefully adhered to including the choice of warehouse.



5

Structured trade and export finance, and export credit insurance

5.1 What is structured trade and export finance?

Structured trade and export finance (STEF) plays a fundamental role in supporting and facilitating cross-border trade, investment and overall economic development. Its primary mandate is to promote international trade by enabling the financing of capital goods, medium-to large-scale infrastructure projects or commodities – especially where traditional financing is unavailable or too expensive.

STEF financing structures are typically customised and tailored to complex cash flows with the aim to mitigate risks, thus enabling transactions that might not be viable under standard financing terms. Financed undertakings are usually large-scale and capital-intensive projects, which often require long-tenor commitments ranging from five to 15 years, involving multiple stakeholder, jurisdictions and financial instruments.

A key feature is the risk mitigation, achieved through collaboration with export credit agencies (ECAs) and private risk insurers (PRIs) that provide insurance solutions to reduce both commercial and political risk exposure of lenders, thus enabling the financing of undertakings with more challenging risk profiles. This is particularly relevant in higher risk environments, such as emerging or politically unstable markets or in times of fundamental change and transformation.

Working in close collaboration with ECAs, global banks help corporates and sovereigns expand their financing operations by accessing ECA-backed schemes. They do this either on a sole lender/agent basis or within a syndicate of several banks.



Banks in cooperation with ECAs typically offer three types of trade and export financing solutions.

- **Buyer's credits** are loans provided by financial institutions to a foreign buyer with support from an ECA to finance the purchase of goods or services from an exporter in the lender's country. The credit is typically tied to the purchase of goods or services from a specific exporter.
- **ECA-covered project financing** involves long-term, non-recourse financing for infrastructure or industrial projects, where repayment is based on project cash flows, or eligible exports of capital goods. ECA support is linked to specific sourcing requirements in the home country of the ECA.
- For **untied loans** financing is not tied to specific exports or contracts. ECA support is predicated on national interest, securing broader benefits for the country (e.g. securing raw materials and supporting overseas expansion).

Since 2020 the landscape of export finance has undergone a significant transformation shaped by global disruption, the need to manage climate impact and geopolitical challenges. Established markets such as Russia broke away, securing the sourcing of strategic raw materials gained in importance and massive investments relating to the green transformation were planned and carried out in developed markets.

While historically, STEF was focusing primarily on tied financing of capital goods and related services exported to emerging markets (for e.g. energy, transport and industrial development), the demand for untied ECA financing has grown over recent years due to the global economy's multi-dimensional transformation – especially the demand for financing of green projects, industrial initiatives and increased government defence spending in developed and more stable economies.

An example of a recent trend in trade and export finance is that developed world ECAs (see Section 5.2) are engaged in more defence-related deals following the NATO call to action in June 2025 requiring defence investment amounting to 5% of GDP from its partners – with 1.5% of that being allocated to infrastructure to “protect our critical infrastructure, defend our networks, ensure our civil preparedness and resilience, unleash innovation, and strengthen our defence industrial base”.⁵⁰

The role of banks and ECAs, therefore, is no longer solely transactional but increasingly transformational, supporting countries to provide the liquidity needed to navigate global evolving challenges and to support national economic strategies.

5.2 Export credit agencies (ECAs)

5.2.1 What ECAs do

ECAs act on behalf of national governments to promote national exports and the international competitiveness of domestic companies and to support countries in advancing a certain strategic economic agenda.

As the OECD puts it, “governments provide officially supported export credits through ECAs in support of national exporters competing for overseas sales”.⁵¹ ECAs “can be government institutions or private companies operating on behalf of governments”⁵² and require a minimum sourcing in their own country and limit sourcing in other countries, in particular the borrower’s country. Usually, ECAs are backed by their national treasury or finance ministry, giving them high credit standing (often sovereign rated).

5.2.2 History of ECAs

The first ECA, the UK's Export Credits Guarantee Department (ECGD), was established in 1919, but many ECAs were established across Europe in the period immediately after the Second World War. Over time they have developed from straightforward government bodies with mandates to deliver public policy on supporting infrastructure and domestic exports, to agencies more generally promoting the national interest.

ECAs came into their own during the 2008 global financial crisis, responding to the call to action from the former WTO Director General Pascal Lamy with increased trade finance support when many domestic economies were struggling and commercial bank liquidity was severely challenged.⁵³ Using ECAs as a tool to export their way out of recession, governments also developed their own lending programmes to provide attractive finance to their exporters' clients when the commercial banks could not. History repeated itself in 2020–21 during the pandemic, when 43% of ECAs reported an increase in their business levels, mostly in connection with short-term products, according to an OECD survey.⁵⁴ Germany's Euler Hermes, for example, indicated that the number of applications for export credit guarantees had grown by more than one-third over the first half of 2020.⁵⁵

5.2.3 ECA products

ECA support can take the form of 'official financing support' such as direct credits to foreign buyers or indirect financing. This is where the ECA lends funds to a financial intermediary (usually a commercial bank), which in turn lends to the project company at a low fixed interest rate. Another form of indirect financing is where ECAs provide guarantees to lenders in their home country for loans to foreign banks which are then on-lent to foreign purchasers of the home country goods or services.

5.3 Export credit insurance

One of the most widely used financing instruments facilitated by ECAs is export credit insurance. This cover protects exporters and banks against the risk of non-payment, whether due to commercial reasons (such as insolvency or protracted default) or political events (such as war, expropriation, or currency inconvertibility). By mitigating these risks, the insurance provides greater certainty of payment for goods, services, or contractual performance in international trade, and thus enables transactions in more unstable environments.

This insurance protection against the risk of non-payment can be also provided by the private sector (see Section 8.4 on PRIs). Similar to ECA covers, the insurance is generally divided into commercial and political risks and can be assigned to banks as security. Risks covered by such policies depend on what is actually agreed and on the insurer's assessment of economic and political stability in the areas where the cover is required.

Banks' use of insurance provided by ECAs or PRIs is recognised as an eligible credit risk mitigation instrument for regulatory capital relief, which is vital for banks to provide the liquidity needed for those large-scale, high-risk financing undertakings. Article 203 of the Capital Requirements Regulations (CRR) does state that "Institutions may use guarantees as eligible unfunded credit protection".⁵⁶ Types of insurance policies include turnover policies for comprehensive risk coverage, policies to protect against counterparty risks, and excess of loss coverage for losses that surpass standard policy limits (e.g., providing 100% cover up to an agreed threshold).

The product suite varies among ECAs and products offered are helpfully explained in PWC's guide, *Export Credit Agency financing – Investing in Energy Transition Projects* (April 2024).⁵⁷

5.4 The OECD Arrangement on Export Finance

5.4.1 Managing a level playing field

The OECD Arrangement in Export Finance, commonly known as the OECD consensus ('Consensus'), was established to promote a level playing field among exporting countries by setting common rules for government-backed export finance. It limits what ECAs can offer in terms of tenor, repayment terms, interest rates and premium charges ensuring that competition in the market is based on the quality and price of the exported goods – not on the conditions of financing them.

Recent updates aligned the Consensus with sustainability goals. OECD countries have recently agreed on a modernisation package of the Consensus for "better alignment with sustainability-related policy goals". The changes, which took effect 15 July 2023, included increasing the maximum repayment term up to 22 years for Climate Change Sector Understanding (CCSU)-eligible projects, and 15 years for most other projects.⁵⁸ See also [Section 10](#).

The OECD Consensus is a ‘gentlemen’s agreement’ between the member states but as it has been incorporated into EU law, it represents binding law for EU member countries. The full list of OECD ECAs is available from the OECD website.⁵⁹ China, although not a member of the OECD, has been an OECD Key Partner since 2007, alongside Brazil, India, Indonesia, and South Africa. This partnership allows those countries to engage in various OECD activities and benefit from policy dialogue and cooperation.

5.4.2 Unlevel playing field beyond the OECD Consensus

Despite the Consensus, the level of ECA support still can vary considerably between countries, with governments promoting their own national interests through hybrid or untied financing programmes, which fall outside OECD rules.

Responding to the changing geopolitical landscape an increasing number of ECAs have already implemented or are in the process of implementing untied and non-OECD programmes to support their political and economic strategies and focusing on financing along the value and supply chains. As these untied financing programmes are not constrained by OECD rules, they can be applied more flexibly following the strategic rationale of a given country. Most of these ECA programmes have a broad scope incentivising certain imports to a country as well as further promoting export, direct investment abroad, green transition of local companies and/or strategic projects addressing national interests.

While initially the OECD Consensus has helped to level the playing field among participating countries, the need to address a wider set of challenges well beyond the traditional export finance space has resulted in a more diversified ECA landscape, in particular related to untied instruments among the ECAs toolbox.



6

Development finance

The multilateral development system, which encompasses more than 200 organisations and funds, including the World Bank and UN agencies, plays, as explained by the OECD, “a pivotal role in global development co-operation”.⁶⁰

Development finance institutions (DFIs) include:

- Multilateral development banks (MDBs);
- Other international and regional financial institutions;
- National development banks;
- Export credit agencies (see [Section 5.2](#)); and
- Private lenders.

Banks and MDBs work together to mobilise capital, de-risk investments and support sustainable development across emerging and frontier markets. For a summary of how Deutsche Bank has done this, see the *flow* article, ‘[Pillars of frontier economies](#)’ (2024).⁶¹

6.1 Role of multilateral development banks

Multilateral development banks (MDBs) are supranational institutions set up by sovereign states as their shareholders. They have the common task of fostering economic and social progress in developing countries by financing projects, supporting investment and generating capital for the benefit of all global citizens.⁶²

Most MDB programmes provide guarantees to reduce the perceived risk of conducting trade operations in developing countries – they close the confidence gap between perceived and actual risk. Importantly, they cater for the small and medium-sized enterprise (SME) sector, where, according to the Asian Development Bank’s *2023 Trade Finance Gaps, Growth, and Jobs Survey*, 45% of trade finance rejections were attributed to SMEs, despite SMEs only accounting for 38% of applications received by banks.⁶³

MDBs typically focus on providing financial support and capacity building to developing countries rather than directly taking on the payment risks of local firms. In this way, MDBs are closely related to ECAs in their role of bringing net extra capacity to market at times of crisis and with non-commercial objectives.⁶⁴

Their role often involves offering lines of credit or guarantees to local banks, which can then extend trade finance to SMEs. This approach helps mitigate risk for local banks and encourages them to increase their lending to SMEs, which might otherwise be considered too risky.⁶⁵

6.2 Trade finance/facilitation programmes

Seven MDBs work together under a G7 initiative⁶⁶:

- African Development Bank (AfDB)
- Asian Development Bank (ADB)
- European Bank for Reconstruction and Development (EBRD)
- European Investment Bank (EIB)
- Inter-American Development Bank (IDB)
- Islamic Development Bank (IsDB)
- World Bank Group

Others offer specialised solutions such as Islamic finance, soft commodity facilities, and equity support. The following comprise the main programmes in place:

AfDB

The overarching objective of the AfDB is to spur sustainable economic development and social progress in its regional member countries, thus helping to reduce poverty in these regions.⁶⁷

Afreximbank

This provides a range of financing programmes to support the expansion, diversification, promotion and development of intra- and extra-African trade and trade development projects.⁶⁸

ADB

ADB's Trade Finance Program (TFP) fills market gaps for trade finance by providing guarantees and loans to banks to support trade.⁶⁹ A substantial portion of the TFP's portfolio supports SMEs, and many transactions occur either intra-regionally or between the ADB's developing member countries. The programme supports a wide range of transactions, from commodities and capital goods to medical supplies and consumer goods.

EBRD

The EBRD Trade Facilitation Programme aims to promote foreign trade to, from and among EBRD countries of operation and offers a range of products to facilitate this trade.⁷⁰

EIB

The EIB provides finance and expertise for EU projects supporting innovation, SMEs, infrastructure and climate action.⁷¹

IDB

The IDB's current focus areas include three development challenges – social inclusion and inequality, productivity and innovation, and economic integration – and three cross-cutting issues – gender equality and diversity, climate change and environmental sustainability; and institutional capacity and the rule of law.⁷²

IsDB

The IsDB collaborates with beneficiaries of its financing to ensure that the procurement of bank-financed projects and programmes adheres to the bank's policies, guidelines, and procedures.⁷³

World Bank Group

This includes the International Finance Corporation (IFC) and has set two goals for the world to achieve by 2030: end extreme poverty by decreasing to no more than 3% the percentage of people living on less than US\$1.90 a day (from an estimated 9% in 2021); promote shared prosperity by fostering the income growth of the bottom 40% for every country.⁷⁴

Although not part of this G7 initiative another important participant is the International Islamic Trade Finance Corporation, an autonomous entity within the IsDB created "with the purpose of advancing trade to improve the economic condition and livelihood of people across the Islamic world".⁷⁵

7

Other forms of trade finance provision

7.1 Islamic finance

There have been three key attempts to establish modern Islamic financial institutions over the past century.⁷⁶ Currently, the main provider is the IDB that hosts an autonomous entity within its structure in the form of the International Islamic Trade Finance Corporation, which was set up to “improve the economic condition and livelihood of people across the Islamic world”.⁷⁷

The key difference between conventional and Islamic financing is that, while the time value of money is not permissible in a pure ‘cash now for more cash later’ transaction, it is allowed if the financing is an integral part of a real trade in goods.

So, while the organisation is not allowed to lend US\$100,000 in cash now in return for US\$110,000 payable in a year, it is allowed to sell an asset with a market price of US\$100,000 for US\$110,000 payable in a year. For this reason, Islamic finance is often described as an asset-based financing system. The key Shariah contracts used for trade financing are *murabaha* and *salam*.

With *murabaha*, it is the buyer that needs financing to acquire the goods; in *salam*, it is the seller that needs working capital to buy items such as seed in order to grow a crop. *Murabaha* is also referred to as cost-plus sale; sale against a deferred price; instalment sale; or sale with profit.

Since it is a sale-related financing, *murabaha* is considered ideal for trade finance or working capital requirements and is used extensively with documentary credits, documentary collections, and open account purchases, among others.



7.2 Countertrade

Popular in some emerging economies, countertrade is a reciprocal form of international trade where goods or services are paid for in whole, or in part with other goods and services, rather than money. It is often used when foreign currency is in short supply or when a country applies foreign exchange controls.

There are four main types of countertrade transactions:

7.2.1 Barter

The buyer and seller agree on the direct exchange of goods in one contract, i.e., money is generally not involved. Only residual amounts, which may be left after netting imports and exports, are actually paid in currency.

7.2.2 Counterpurchase

This involves two separate contracts to cover the goods delivered and those taken in return. The first deals with goods delivered by the seller and in the second, the seller undertakes to purchase goods from the importing country equivalent in value to a certain percentage of the export.

7.2.3 Buyback

Two contracts are usually signed. One for the agreed export of machinery, plant or technology transfer and the other for the subsequent purchase of products made by using the equipment supplied, either for the full or part of the purchase price.

7.2.4 Offset

This is often used for a transfer of technology. The seller agrees that components supplied by the buyer will be incorporated into the end product, and such supply will be used to offset the cost of the ultimate technology transfer to the buyer.

7.3 Project finance

While trade finance supports international trade with its various instruments and services to help importers and exports manage non-payment and non-delivery risks, project finance is all about large-scale infrastructure projects requiring large injections of capital. So while technically out of scope for this Guide, some of the larger infrastructure projects will see structuring that comprises a mix of export finance (see [Section 5](#)) alongside project finance and development finance (see [Section 6](#)).

Project finance is a method of funding a single asset or a group of similar assets. Unlike traditional corporate loans, which are secured by a company's overall balance sheet, project finance relies solely on the cash flows generated by the project itself to repay debt and service equity. In the case of a highway, this may come from toll revenues, or for a hospital from availability payments, while for a renewable energy project, repayment would come from the sale of electricity. It is sometimes seen as one of the financing tools in mining finance – alongside some of the structured commodity trade finance/natural resources instruments outlined in [Section 6](#).

Since repayment comes directly from the assets, project finance imposes stricter controls and more tailored restrictions than a traditional corporate loan. A corporate loan, for instance, is issued at the company level, usually for the short to medium term – and is structured with covenants linked to the company's overall financial position. In contrast, project finance – due to the focus on the project's future cash flows – has covenants designed to ensure that the project can generate sufficient revenue to cover its debt obligations.

To ensure that proceeds from the project go towards repaying investors, the project's sponsor – responsible for its initiation and organisation – establishes a project-specific entity, usually in the form of a special purpose vehicle. This serves as a standalone entity, isolating the project's financial risk and ensuring its financials are kept separate from the sponsor's broader activities. This type of non-recourse or limited-recourse financial structure is what helps enable project financing to support complex and riskier projects.

Further information on project finance together with a helpful summary diagram can be found in the *flow* article '[Project finance explained](#)'.⁷⁸

8

Managing trade finance risk

[Section 1.3](#) explains how trade finance supports importers and exporters with management of transaction risk. [Section 5.3](#) explains the role of export credit insurance and how government agencies and private risk insurance providers provide cover for non-payment risk.

This section looks at how risk distribution teams assist trade finance deal origination teams in finding funded and/or unfunded investors to be able to de-risk a transaction on a secondary basis.

8.1 Secondary market partners

The quantum of capacity required is driven by the difference between a financier's public hold and their target net hold in a particular transaction. Once this is defined, a distribution team will approach its customary secondary market partners to test their appetite based on the transaction parameters set out by the origination team. These comprise two types of trade finance asset investors:

- **Disclosed partners.** These are usually banks on a funded and disclosed basis.
- **PRIs or underwriters.** These are approached through one of a financier's pre-approved insurance brokers. See [Section 8.5](#).
- **Reinsurers** – approached directly by the financier's distribution team.
- **Other secondary market partners** (this can include banks) willing to support the originating bank on a silent and unfunded/funded basis, depending on the attributes of the deal.
- **Alternative de-risking solutions** – such as asset finance arms of institutional investors, home offices, real money managers, etc.

The distribution team supports the product/deal origination team with sourcing or selling the required asset(s) to ensure that the best pricing is achieved and that market standards relative to secondary trading are adhered to throughout the process. This is vital to minimise execution risk. Responsibility for the actual closing, booking (asset and de-risking) and settlement of the transaction usually remains with the deal origination team.

8.2 Deal participation

The other part of the distribution role is where a financier will invest in loans where the deal is already allocated and free to trade in the secondary market. The general business rationale for making such an investment in a secondary market loan is to establish a particular presence in a particular market, establish a relationship with a new borrower, or fill existing credit limits which could not be filled through primary syndication (e.g., reduced allocations post oversubscription). This is typically seen in the larger structured trade and export finance (see [Section 5](#)) and natural resources (see [Section 4](#)) deals where another financial institution has done the origination and, as set out in [Section 8.1](#) above, is looking for deal participation.

8.3 De-risking products and methods

The following products and methods are a core part of the toolkit available to distribution teams seeking to de-risk transactions under their mandate.

8.3.1 Insurance policies

This is a product widely used by banks whereby the insured enters into an insurance policy with one (or more) underwriter(s) or credit risk insurers (CRIs), which defines the terms under which the underwriter(s) will have to pay a defined amount to the insured in case the client (for example, the borrower and/or any of the obligor(s) under the facility agreement) fail to honour their obligations under that facility agreement.

Financiers will usually work from a template insurance policy that is revalidated by the deal stakeholders. Key points insurance users need to bear in mind are:

- All information required by the relevant policies provided to the underwriters is shared as not providing all required information could invalidate the policy.
- All documentation and information provided to underwriters must be done on a confidential basis.
- If there are any material amendments to the loan the impact on all the underwriters needs to be considered.
- Any material omissions must be highlighted to the underwriters.
- Financiers need to check the potential for loan information potentially being viewed by compliance teams as inside information and work with their compliance teams on required procedures – e.g. third-party wall crossing, etc.

See also [Section 8.4](#)

8.3.2 Unfunded risk participation agreements

An unfunded risk participation agreement (unfunded RPA) is an agreement under which the financier shares all or part of its risk on a specific transaction to a third party in exchange for a portion of the received revenue. Unfunded RPAs are usually used with certain bank re-insurance partners (following documentation templates already pre-agreed by the various stakeholders). Sometimes banks do also participate under an unfunded RPA.

For transactions within EMEA, the RPA document is usually based on LMA standard documentation (see [Section 1.5.6](#)) – or on BAFT documentation (see [Section 1.5.2](#)). For Americas, the document may be based on LSTA guidelines (see [Section 1.5.7](#)).

8.3.3 Cash sales e.g., transfer certificates, assignment agreements, funded sub-participation agreements or any other funded solutions

Distribution teams may look at executing cash sales with investors (usually bank type investors) whereby the originating bank will sell exposure of a facility on an outright basis to an identified counterpart. This would usually imply a transfer of an agreed amount to the buyer documented under a transfer certificate, assignment and assumption agreement or any other applicable document (in EMEA the sale will require a trade confirmation based on LMA standard documentation) as annexed to the facility agreement, at a mutually agreed price. These transfers are usually disclosed to the client.

When an outright transfer is not possible or recommended, the distribution team may look at selling an agreed participation amount under a funded sub-participation agreement as per the generally agreed prevailing market standard terms document (LMA or LSTA). However, as some investors may require for the sale to be disclosed to the client, such potential requirement of disclosing this sale to the client will have to be discussed and agreed with the product team and coverage officers involved in the transaction.

The detailed commercial terms of a cash sale will have to be agreed between the various relevant internal stakeholders (including, if appropriate, Portfolio Management).

8.4 Trade finance and insurance

8.4.1 Role of insurance in trade finance

Export credit insurance protects sellers against the risk of non-payment when offering credit terms to buyers as part of a sales contract. By mitigating commercial and political risks, it provides greater certainty of payment for goods, services, or contractual performance in international trade. See [Section 5.3](#).

As the International Union of Credit and Investment Insurers (Berne Union) puts it, “The export credit insurance industry sits at the interface of global finance and trade. It provides a bridge between finance, trade and the real economy, acting as a catalyst for cross-border investment and economic growth”. The Berne Union has represented the global export credit and investment insurance industry since 1934.⁷⁹

- **Export credit insurance** that protects exporting companies or their financiers against the risk of non-payment by a foreign buyer due to insolvency or protracted default.
- **Investment insurance** that protects against losses to cross-border investments (equity, debt) as a consequence of political risks including: expropriation, political violence, currency inconvertibility, embargo, forced abandonment or breach of contract

Most credit insurance policies provide comprehensive cover; protecting against non-payment due to both commercial *and* political risk.

8.4.2 Role in capital relief

Banks’ use of insurance is recognised as an eligible credit risk mitigation instrument for regulatory capital relief. Article 203 of the Capital Requirements Regulations (CRR) does state that “Institutions may use guarantees as eligible unfunded credit protection”.⁸⁰ Types of policies include:

- Whole turnover policies covering all sales on credit terms. These can be written to cover both domestic and export sales.
- Specific or key customer policies covering the default risk of one customer – or of a small number of key customers – where the seller/exporter has the largest part of its turnover.
- Excess or catastrophe policies where, for a lower premium, the seller agrees to cover 100% of the losses up to an agreed threshold.



8.4.3 Surety

The ICISA (International Credit Insurance & Surety Association)⁸¹ defines this as “an agreement, issued by an insurance company, which (in most cases) provides for monetary compensation in case the principal fails to perform. Although many types of surety bonds exist, the two main categories are contract and commercial surety.”

See Chapter 6, ‘Surety – how insurance companies can issue guarantees and risk participations’ in Deutsche Bank’s [Guide to Receivables Finance, 3rd Edition](#)⁸² for a more detailed explanation of the role of surety in trade finance.

8.4.4 Insurance providers

See also Chapter 4: The role of credit insurance in receivables financing in Deutsche Bank’s [Guide to Receivables Finance, 3rd edition](#). This covers the role of the broker and underwriter/reinsurer (where risk is transferred between insurance companies), key terms and claims procedure in trade credit insurance and other essential legal points.⁸³

A broker is instructed by the insured party and can advise financiers about the insurance products available and obtain pricing quotes from a range of insurers. The broker will also assist the financier with understanding and negotiating policy wording and can act as a funnel for comments from different insurers.

During the term of the policy, the broker may assist the financier with ongoing queries about the policy or with negotiating any amendments to the cover. The financier’s broker will also typically assist with the claims process, handling communications between the insured and the insurers and helping the financier to negotiate the settlement of a claim.

8.5 Trade finance and investors

8.5.1 Trade finance assets

Asset-backed securitisation (ABS) and private securitisation of trade finance assets (the structure has traditionally applied to other asset classes, such as mortgages or auto loans) offer a scalable and structured approach to mobilising liquidity for trade finance from institutional investors. But how exactly can this goal be achieved, and what are the related challenges and opportunities?

ABS offers investors an opportunity to diversify their portfolio, giving them access to asset classes that they would not otherwise reach in a pooled, rated and sometimes liquid format. Trade finance as an asset class is not only generally diversified across products, industries and client types, it is also often characterised by low default rates, self-liquidation, and short tenors that make it a stable and attractive asset class for capital market investors.

See also Chapter 6, [Payables Finance and Investors in Deutsche Bank's Payables Finance – a Guide to Working Capital Optimisation](#).⁸⁴

8.5.2 Securitisation

Securitising trade receivables allows companies to raise capital by selling, on a revolving basis, a selection of receivables to a legally separate, bankruptcy-remote special purpose vehicle (SPV). These trade finance securitisations are typically baskets of assets, such as supply chain finance, and documentary credits with an average life of 180 days, and many being less than 90 days.

This is underpinned by an 'originate to distribute' model, in which a bank or financial institution originates a loan or trade finance product and then distributes it to investors in the market.

For the originator, this also helps to distribute some of the associated risks, while at the same time potentially freeing up capital to engage in further lending or investment activities without tripping balance sheet limits. This could have a positive impact on extending more financing to SMEs, which would help increase the reach of trade finance – the difference between requests and approvals for financing to support imports and exports.⁸⁵

In turn, investors in these trade finance assets get to diversify their portfolio, giving them access to asset classes that they wouldn't otherwise reach in a pooled, rated and sometimes liquid format. This can be advantageous as trade finance as an asset class is not only generally diversified across products, industries and client types, it is also often characterised by low default rates, self-liquidation, and short tenors that make it a stable and attractive asset class for capital market investors.

However, these structures face a range of challenges, including legal enforceability, regulatory compliance, tax leakage, dilution and set-off risks, and potential fraud – all of which require robust legal, structural and monitoring controls.

A specific complexity lies in the nature of the underlying receivables. Securitisations rely on predictable cash flows – but the short tenor of trade finance assets can interrupt this consistency. As receivables mature quickly, originators must continually replenish the pool with high-quality assets, which entails considerable administrative commitment, or risk underperformance of the structure.

Rating agency methodologies and extensive, data-driven analysis play a central role in determining whether this topping-up can be achieved and raises the bar for larger, multi-tranche securitisation transactions – especially for those that involve riskier SME lending or emerging origination entrants.

Given these challenges, the market is still maturing. To put this into perspective, in 2021 only around 5–6% of trade finance was distributed between banks and insurance carriers, while the percentage distributed to capital markets was practically negligible.⁸⁶ By comparison, in the US mortgage market about 60% of all mortgages that banks originate are getting distributed and only about 1% are allocated to specialist funds. See *also* Chapter 7b, Trade receivables securitisations: Trade finance synthetic securitisation in [Deutsche Bank's Guide to Receivables Finance 3rd edition](#).⁸⁷

A useful example of a securitisation programme in action is Deutsche Bank's [US\\$3.5bn issuance of TRAFIN 2023-1](#), the fifth iteration of its trade finance significant risk transfer synthetic securitisation.⁸⁸

9

Payments and foreign exchange (FX)

Cross-border payments and foreign exchange (FX) are deeply interlinked in the context of international trade. Every trade transaction ultimately results in a payment – and when trade happens across borders, these payments often involve different currencies. This creates a need to obtain foreign currencies to execute these transactions, while also introducing foreign exchange exposure – a source of both operational complexity and financial risk. All businesses need a strategy for dealing with currency movement risk and monitoring the extent and timing of the exposure.

9.1 Cross-border payments

Cross-border payments are central to international trade, but historically have been slow, opaque and expensive. A typical payment may pass through several intermediaries before reaching the recipient, with each link introducing delay, cost and potential failure.

Recognising the importance of efficient payment systems for global economic growth and financial inclusion, in November 2020 G20 members endorsed the Roadmap for Enhancing Cross-border Payments. It sets quantitative targets by the end of 2027 to lower costs, increase speed, accessibility and transparency of international payments.

These goals have been organised under three priority themes:

- Payment system interoperability and extension;
- Legal, regulatory and supervisory frameworks; and
- Data exchange message standards.

See the white paper [G20 Roadmap: Forging a path to enhanced cross-border payments \(2024\)](#) for further information.⁸⁹

9.2 FX in trade

Whenever buyer and seller operate in different currencies, trade creates an immediate need to obtain foreign currency in order to settle the transaction. For example, a Singapore-based importer purchasing raw materials from Germany will need to acquire euros to make payment. This basic requirement to convert one currency into another is at the heart of foreign exchange in trade.

Beyond acquiring the appropriate currency, businesses must also contend with timing mismatches. The price of a currency may change between the moment a deal is agreed and the date on which payment is made. This introduces foreign exchange exposure – the risk that currency movements could negatively impact the value of a transaction.

9.2.1 Terminology

The International Organisation for Standardisation (ISO) publishes a list of standard currency codes referred to as the ISO 4217 code list.⁹⁰

Currency codes are typically composed of a country's two-character Internet country code plus a third character denoting the currency unit. For example, the British pound code (GBP) is made up of the UK Internet code ('GB') plus a currency designator ('P'). Some currency codes – such as the euro (EUR) or Mexican peso (MXN) – do not use a currency designator initial as third letter. Some currencies have changed their currency code from its original form – for example the Russian rouble changed from RUR to RUB in 1997.





9.2.2 Spot and forward rates

The simplest form of currency trading is via spot transactions. This provides the option to ‘exchange’ one currency against another and is often carried out within two working days. Spot transactions do not require a contract and the short transaction tenor means interest does not need to be factored into the transaction. Therefore, a spot transaction is solely dependent on the exchange rate at that particular time and any small margin applied by the counterparty (often the bank).

In contrast, a forward transaction relates to a currency exchange that will take place at a fixed exchange on an agreed future date.

9.2.3 Managing risk

When buyer and seller operate in different currencies, every trade transaction creates a potential FX exposure. For instance, a German machinery exporter invoicing a Brazilian buyer in USD may not convert those dollars into euros until weeks later – during which time currency fluctuations could erode their profit margin.

FX risk is not only a pricing issue. It can affect working capital, cash flow forecasts, and accounting outcomes. For importers and exporters alike, aligning payment timing with currency conversion is essential for preserving financial stability. Identifying, monitoring and managing FX exposures is, therefore, a core treasury task. This is an area where banks provide a valuable service.⁹¹

10

Sustainable finance in a trade context

10.1 Trade and the planet

While trade plays a vital role in global economic development, it can also bring significant environmental and social challenges. The expansion of trade often leads to increased resource extraction, energy consumption, and transportation emissions, contributing to pollution, deforestation, and climate change. On the social front, trade can exacerbate inequalities, exploit labour in low-wage regions, and undermine local economies. Without responsible practices and regulations, the pursuit of profit in trade can come at the expense of ecological sustainability and social well-being.

To address these challenges, sustainable finance offers a powerful lever. By directing capital toward environmentally and socially responsible trade practices, sustainable finance can help reshape the trade business. It enables businesses and investors to align profitability with sustainability, paving the way for a more equitable and climate-conscious global economy.

10.2 Transition plans

As the global economy progresses towards net-zero,⁹² and governments as well as corporates formally accept more responsibility for the environmental and social impact of their pursuit of growth, regulations, reporting standards and the role of the banking industry are evolving. Alongside governments and business, banks can play a major role in accelerating the transition to a low-carbon economy by supporting their clients in this transformation via financing solutions and advice.

Transition Plans serve as a roadmap for banks, outlining how they operationalise their net-zero commitment and align their operations and financing activities, while shifting towards a low-carbon economy. Transition Plans illustrate the strategic approach to managing climate-related risks and opportunities, as well as providing transparency for stakeholders. See also the *flow* articles, '[Decarbonising tomorrow](#)'⁹³ and '[How to manage transition to net-zero](#)'⁹⁴ for further background.

The Deutsche Bank Transition plan builds on existing industry-specific transition plan guidance – the plan examines the carbon emissions linked to the bank’s own operations and supply chain as well as the financed emissions associated with its European residential real estate and corporate loan portfolios.

Deutsche Bank has set sectoral decarbonisation targets for 2030 and 2050 for eight of the most carbon-intensive sectors in the corporate loan portfolio:

- Oil and gas (upstream);
- Power generation;
- Automotive (light duty);
- Steel;
- Coal mining;
- Cement;
- Shipping; and
- Commercial aviation.

10.3 Sustainable Finance Framework

As explained in [Section 10.1](#), sustainable finance can play an important role in directing financial flows towards more sustainable and climate-friendly trade business, helping to ensure that its overall effect is as positive as possible.

Deutsche Bank’s Sustainable Finance Framework outlines the methodology and summarises associated procedures for classifying transactions and financial products and services offered by Deutsche Bank as sustainable for which further internal technical criteria are available and applied.

Subject to regular reviews, it may be expanded as required to amend and/or add qualifying economic activities and/or eligibility criteria to keep pace with market developments, including regulatory developments related to taxonomies and respective sustainable finance standards. A short summary is included here but it should be read in its original form for guidance on transaction classification.⁹⁵

Under this Sustainable Finance Framework, any financing can be classified as environmentally or socially sustainable under one of the three parameters below if it is in line with Deutsche Bank's objectives for environmental and social sustainability and contributes to the achievement of the Paris Agreement goals⁹⁶ and/or the Sustainable Development Goals (SDGs)⁹⁷.

Use of proceeds (Parameter 1)

Where a dedicated use of proceeds can be determined, environmental and/ social eligibility criteria will be applied to determine whether the underlying economic activities can be classified as sustainable. There are two basic considerations: first, activities helping to sustain, improve, and protect the environment; and second, activities enabling social development, especially in marginalised target groups but also in certain cases for the general public.

Company profile (Parameter 2)

If the use of proceeds is not specified or dedicated to facilitating a certain activity (e.g. general corporate purposes), the eligibility of financing for classification as sustainable will be assessed on the company profile. Companies are assessed according to their share of revenues from environmentally and/or socially sustainable activities.

Sustainability-linked solutions (Parameter 3)

These are sustainability-linked financial solutions that incentivise clients to achieve ambitious, predetermined Sustainability Performance Targets (SPTs). These should be linked to underlying Key Performance Indicators (KPIs) that address key sector-specific ESG challenges by a client and its industry in a holistic way and be linked to that client's overall sustainability and/or transition strategy. Preferably these should be measured and audited by a recognised and reputable external provider.

Deutsche Bank has established robust governance processes to ensure all transactions and financial products and services classified as sustainable are compliant with its Sustainable Finance Framework.

10.4 Industry principles – non-exclusive list in order of initial publication

10.4.1 Loan Market Association (LMA)

Formed in 1996, The LMA has a Sustainable Lending microsite⁹⁸ to support its members that includes:

- Documentation projects, including the release of model provisions for sustainability-linked loans, together with work on the preparation of an accompanying term sheet and a template mandate letter for sustainability coordinators;
- Supporting the development of market practice, including the publication of updated versions of the Green, Social and Sustainability-Linked Loan Principles and accompanying guidance documents;
- Responding to regulatory proposals in relation to sustainable finance; and
- Attending and hosting various sustainable finance events.

10.4.2 International Capital Market Association (ICMA)

Formed in 2005, the ICMA supports the development of sustainable finance in the bond and wider debt capital markets and also has a dedicated Sustainable Finance website.⁹⁹ It provides the Secretariat for the Green Bond Principles (GBP), the Social Bond Principles (SBP), the Sustainability Bond Guidelines (SBG) and the Sustainability-Linked Bond Principles (SLBP) collectively known as 'The Principles' – that are the *de facto* global issuance standard for the international sustainable bond market (referenced by 97% of issuers in 2024).



10.4.3 The Equator Principles

Large infrastructure and industrial projects can have adverse impacts on people and on the environment. The Equator Principles (EPs) are a common baseline and risk management framework intended to help financial institutions to identify, assess and manage environmental and social risks when financing projects. Formally launched in Washington DC on 4 June 2003, they have been revised over the subsequent two decades and the fourth iteration was published in July 2020.

The application of Equator Principles is anchored in internationally recognised standards (such as the IFC Performance standards) while offering the Equator Principles Financial Institutions (EPFIs) the flexibility to adapt implementation to local contexts, sector nuances and scale and potential impacts of individual projects.

The EPs have global application to all industry sectors and to five financial products:

- Project finance advisory services;
- Project finance;
- Project-related corporate loans;
- Bridge loans; and
- Project-related refinance, and project-related acquisition finance.

Some of the large infrastructure deals have structuring comprising elements of project finance, export finance and development finance as well as possible corporate finance to access the capital markets.

“Through this application, negative impacts on project-affected ecosystems, workers and communities are avoided where possible; and if unavoidable, negative impacts should be reduced, mitigated and/or compensated for appropriately,” explains the Equator Principles Association.

10.4.4 ICC principles for sustainable trade

The ICC Principles for Sustainable Trade were published on 1 July 2025, “to support trade meeting both the Paris Agreement objective of limiting global warming to 1.5°C above pre-industrial levels, and the UN Sustainable Development Goals” and “enable banks, corporates and investors to effectively channel capital towards sustainable and inclusive trade finance”.¹⁰⁰

11

Trade finance and its digital evolution

The ICC and the Boston Consulting Group have predicted that trade digitisation could boost trade revenues by up to 20%, cut processing times by 60%, and save global trade banks up to US\$6bn annually. In a separate study, the ICC also found that paperless trade could create US\$267bn worth of additional exports among G7 countries.¹⁰¹

But what does going digital mean? According to the Bank for International Settlements, a defining feature of 'digital' in the context of financial services is "the emergence and growing use of a wide range of innovative technologies across various aspects of the banking value chain."¹⁰²

11.1 Digitisation and digitalisation

There is also a core distinction that needs to be unpacked between "digitisation" and "digitalisation". In the context of trade finance the former is a revolution, revisiting the whole transactional journey and exploring elements that could be replaced with a digital solution; the latter is an evolution, taking existing processes and instruments with a view to finding digital alternatives that could work together.

There have been several impressive examples of innovation in recent years that have attempted to achieve both sides of this equation – though their level of success has not always been extensive. The widespread adoption of digital alternatives for mainstream trade finance documents remains the key sticking point, despite agreement that the industry generates huge amounts of paper each year and transparency throughout the transaction journey would improve efficiency and reduce costs. The other issue of course is the sheer number of participants in a single trade finance transaction – rather different from a cross-border payment.

This section provides a summary of the legal frameworks and international standards set out in Deutsche Bank's [Guide to Digital Trade Finance](#), (July 2024). This should be referenced for all other developments on the digitalisation of trade finance.

11.2 Legal frameworks

Over the past decade, major steps forward have been made to digitalise trade. New digital standards and emerging technologies have converged to help to bring the industry closer than ever to achieving this goal. This progress has been backed by significant demand and strong momentum.

Despite this, only 1% of global trade today is transacted electronically,¹⁰³ which begs the question: why do efforts to digitalise trade continue to stall? There are multiple obstacles to unlocking truly digital trade, but perhaps the biggest is that the existing legal frameworks used for trade around the world no longer reflect modern realities.

Put simply, the law in certain regions requires critical trade documents, such as bills of lading and bills of exchange, to be physical. Without reform, the law will continue to lag behind today's digital advances – and will, ultimately, hinder the adoption of electronic trade documents and stop the many associated benefits from being achieved. However, change on this front is underway.

11.2.1 Bills of lading and other key trade documents: the possession conundrum

Despite the size and sophistication of the market, certain commercial documents and instruments used in trade – including bills of lading, bills of exchange, promissory notes and warehouse receipts – have not been updated, in some cases, for hundreds of years. For example, other than the type of paper used and the goods being exchanged, a bill of lading taken from the 16th century – detailing the contents of the cargo, the origin of the goods and its destination – would not look too out of place in 2025. Just to put the importance of these documents in perspective, most bills of lading are still paper-based and apply to around 40% of all containerised trade transactions.¹⁰⁴

As these documents – and the processes they involve – remain largely unchanged, the laws surrounding their use have also been lost in time. In the majority of cases, the legal wording for these documents hinges on concepts such as 'possession' and 'delivery', which, given the context of the time these laws were enacted, presupposes the use of a tangible medium (e.g. essentially, paper).



As electronic documentation is not tangible, these digital alternatives are not legally permitted in many regions of the world. It means that the original bill of lading still requires many stakeholders to print, stamp and sign various paper copies before physically transporting them to their destination. The resulting manual processes involved in dealing with this physical documentation can take upwards of six hours, across all stakeholders.¹⁰⁵ So the race has been on to achieve legal and functional equivalence between paper-based documentation and digitally-based documentation.

11.2.2 The Model Law on Electronic Transferable Records (MLETR)

As part of its ongoing efforts to harmonise trade, between 2011 and 2016 Working Group IV of UNCITRAL developed the Model Law on Electronic Transferable Records (MLETR), which aims to enable the legal use of electronic transferable records both domestically and across borders.¹⁰⁶ To this end, the MLETR acts as a template to promote greater legal harmonisation, which can be in the form of a stand-alone text, or as an add-on to existing legal texts.

Key features include:

- **Functional equivalence.** Applies to both electronic and paper-based documents – meaning the use of either is functionally equivalent from a legal standpoint.
- **Enabling law.** No new regulation or prescription is required.
- **Technology neutral.** It is compatible with all technologies and all models, including registry, token and distributed ledger-based (blockchain) systems.
- **Safeguards against fraud.** By combining the notions of “control” and “singularity” the MLETR can help to prevent documentary credit fraud.

Figure 15: Digital trade law – adoption progress around the world⁴⁰⁷



Source: [MLETR Tracker](#)

Information correct as of September 2025. For the latest progress, please refer to <https://www.digitalizetrade.org/mletr>

11.2.3 The Electronic Trade Documents Act

An electronic bill of lading (eBL) is the digital equivalent of a traditional paper Bill of Lading, serving the same essential functions in international trade and shipping. Leveraging the MLETR as the basis, legal recognition of eBLs is growing.

For example, on 11 July 2023 the Electronic Trade Documents Bill was given Royal Assent, making the UK the first G7 country to implement the standard. It provides for certain digital trade documents to be put on the same legal footing as their paper counterparts; in essence, it covers trade documents that must be capable of being possessed for them to have legal effect and function as intended. The impact of the Act extends far beyond the UK, as English law governs 80% of trade documents worldwide – a legacy of the UK's historic role in trade.¹⁰⁸

11.3 International standards

Rules and standards help to safeguard applicability and guarantee relevance for traditional trade instruments. As the world of trade continues to digitalise, these rules are expanding to explicitly and unambiguously support the usage of electronic records. Such an approach ensures conformity and congruence as opposed to divergent local, national and regional practices, leading to a shared understanding of terminologies and objectives.

In the following section, we outline the core rules and standards that are providing the foundations needed to transform trade finance.

11.3.1 ICC: URDTT and eRules

The ICC produces universally accepted rules and guidelines to help businesses access the financing needed to import or export goods. While existing ICC rules, such as UCP 600 and URC 522, remain invaluable in a paper-based world, they provide limited protection when applied to electronic transactions.

In response to this challenge, the ICC is increasingly focused on aligning corporates, banks, service providers and fintechs to address the changing needs of trade finance in a digitised world. To this end, new ICC rules have been published over recent years that focus primarily on digital trade finance, including:

- **eUCP Version 2.1.** The Uniform Customs and Practice for Documentary Credits (UCP 600) Supplement for Electronic Presentations (‘eUCP’) is a supplement to the UCP 600 in order to accommodate presentation of electronic records alone or in combination with paper documents.
- **eURC Version 1.1.** The Uniform Rules for Collections (URC 522) Supplement for Electronic Presentation (‘eURC’) is a supplement to the URC 522 in order to accommodate presentation of electronic records alone or in combination with paper documents.
- **URDTT Version 1.0.** The Uniform Rules for Digital Trade Transactions (URDTT) are in place in order to provide a structural framework for all parties (or persons) that participate in a Digital Trade Transaction. The rules serve as an overarching framework for high-level guidelines outlining obligations, rules and standards for the digitalisation of trade finance, thereby providing global standardisation, consistency and conformity.

The eURC and eUCP established rules for electronic records associated with existing, well established, trade finance products. These products, however, are not fully digitalised owing to an ongoing market reliance on manual reconciliation processes.

The URDTT on the other hand envisages transactions that are evidenced in a manner that is totally digitised. This is why the approach taken in the drafting of the URDTT was to produce rules that are agnostic as to the medium used to handle the digital trade. One important stipulation is that the trade must be conducted using electronic records and not paper.

User Guides to eUCP/eURC¹⁰⁹ and the URDTT¹¹⁰ have been made available free of charge with the aim of encouraging adoption of electronic documents/records.

Furthermore, a series of Digital Commercialisation Briefing Papers is being issued with the first three now available.

As highlighted in Briefing 1, *Risk of email presentations and file attachments under Documentary Credits subject to UCP 600*,¹¹¹ the Covid-19 pandemic led to both banks and corporates adopting innovative solutions to support the processing of trade finance transactions. This, in turn, saw an increased use of email as a means of presenting documents under documentary credits subject to UCP 600. The content raises awareness on risks associated with the practice.¹¹²



11.3.2 Swift MT 798 and APIs

In trade finance, there are several bank-to-bank and corporate-to-bank messaging systems, which allow for the flow of information relating to trade finance transactions: MT 799, MT 760 and MT 798. These messages are part of the Swift MT standards, which are a set of standardised message types that enable the secure exchange of financial information between financial institutions.

The FIN MT 798 system or 'envelope' caters for the following instruments:

- Import letters of credit
- Export letters of credit
- Guarantees/standby letters of credit

Using Swift Category 798 messages (for letters of credit and guarantees), corporates can apply to their bank for a letter of credit or guarantee, and receive an advice of L/C or guarantee back from their bank. The bank can then notify the issuance of an L/C or guarantee or notify an amendment. These messages have been used successfully by corporates since inception, especially for high-value payments and when working with new suppliers.

After consulting with its community, Swift overhauled MT 798s for letters of credit in 2018 and for demand guarantees and standby letters of credit in 2021 – and continues to work with the community on enhancements and alignments to suit changing market requirements.

According to Swift, there is currently no immediate plan to migrate trade messages to ISO 20022. In fact, to ensure that the industry is future ready, Swift has developed the first trade ISO-compatible Corporate to Bank API for Guarantees, in collaboration with the ICC.¹¹³

12

Financial crime prevention

12.1 Definition and overview

The Wolfsberg Group, ICC and BAFT describe financial crime as money laundering, the financing of terrorism and weapons proliferation, breaking of sanctions, financial fraud, financial crimes such as tax evasion and other predicative offences related to trade products and services.¹¹⁴

Either through active or passive participation in financial crime, a financial institution can, on occasion, find itself in a situation where not only is there a potential legal and regulatory implication as well as cost, but also where irreparable damage may occur to its reputation. It should be noted that reputational risk could have far greater consequences for a financial institution than the mere imposition of a financial penalty. Each financial institution should maintain internal guidelines that advise staff of the regulatory requirements for the handling of trade finance transactions and how to look out for suspicious transactions that could be fraudulent or subject to money laundering or terrorism financing; in other words, all sorts of financial crime (see [Section 12.9](#)).

What is it that makes trade finance a particular target for criminals? The problem stems from the very nature and complexity of trade finance transactions, and the huge volume of trade flows that exist, which can hide individual transactions and help criminal organisations to transfer value across borders. As a result of this, every organisation involved in trade finance holds responsibilities with regards to the prevention of financial crime.

12.2 Money laundering

Money laundering encompasses any act, or attempted act, to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources.¹¹⁵

For trade-based money laundering, it can be described simply as the misrepresentation of the price, quantity or quality of an import or export.

There are three distinct phases to the act of money laundering:

- **Placement:** the initial entry of the ‘dirty’ money or proceeds of crime into the financial system, exchanging it for ‘clean’ money i.e., travellers’ cheques.
- **Layering:** electronic movement of funds in multiple constant transactions in order to obscure the audit trail and cut the link with the original crime.
- **Integration:** funds that are invested or merged in legitimate non-criminal activities and subsequently re-directed as ‘clean’.

It is unlikely that trade finance products will be used by money launderers in the placement stage of money laundering, except where funds are used to collateralise the issuance of a bank undertaking. However, they could be used in the layering and integration stages of money laundering as the enormous volume of trade flows obscure individual transactions, and because of the complexities associated with diverse trade financing arrangements that facilitate the commingling of legitimate and illicit funds.¹¹⁶

12.3 Terrorist financing

Terrorist financing involves the solicitation, collection or provision of funds to support terrorist acts or organisations. Funds may stem from both legal and illicit sources.¹¹⁷

A common feature of terrorist financing and money laundering is the disguising of the ultimate destination of the funds and dual-use goods (see [Section 12.5](#)). The The Financial Action Task Force (FATF) defines the risks of terrorist financing as a function of three factors¹¹⁸:

- **Threat:** criminals, terrorist groups and their facilitators, their funds, as well as the past, present and future money laundering or terrorist financing activities.
- **Vulnerability:** factors that represent weaknesses in systems or controls or certain features of a country.
- **Consequence:** refers to the impact or harm that money laundering or terrorist financing may cause and includes the effect of the underlying criminal and terrorist activity on financial systems and institutions, as well as the economy and society more generally. The consequences of money laundering or terrorist financing may be short or long term in nature and also relate to populations, specific communities, the business environment, or national or international interests, as well as the reputation and attractiveness of a country’s financial sector.

12.4 Proliferation financing

FATF working group on terrorist financing and money laundering (see [Section 12.9](#) for more detail on FATF) has proposed a definition of proliferation financing: “The act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.”¹¹⁹

In addition, ICC’s Policy Statement, published in June 2019, *How does global trade and receivables finance mitigate against proliferation financing?* provides useful guidance for financial institutions in identifying high-risk customers and transactions in relation to proliferation finance related to weapons of mass destruction.¹²⁰

Proliferation differs from money laundering in several respects. The fact that proliferators may derive funds from both criminal activity and/or legitimately sourced funds means that transactions related to proliferation financing may not exhibit the same characteristics as conventional money laundering. Furthermore, the number of customers or transactions related to proliferation activities are likely to be markedly smaller than those involved in other types of criminal activity such as money-laundering.

12.5 Dual-use items

Dual-use items are goods, software, technology, documents and diagrams, which can be used for both civil and military applications. They can range from raw materials such as sugar (which can be used in explosives manufacturing as well as foodstuffs) to components and complete systems – such as aluminium alloys, bearings or lasers. They could also be items used in the production or development of military goods, such as machine tools, chemical manufacturing equipment and computers.¹²¹

Most countries have legislation and control procedures in place for the export of such items.¹²²

12.6 Sanctions

Sanctions are trade controls that can be (and are) imposed by the UN, the EU Council, or individual countries – such as the US via its Office of Foreign Assets Control (OFAC) – for political or economic reasons. The Charter of the UN refers to sanctions as “measures not involving the use of armed force”, including a “complete or partial interruption of economic relations.”¹²³

Most sanctions will include a rationale as to why they have been imposed and their proposed aims. Sanctions can prohibit dealings with not only specific countries or companies, but also individuals and property. Sectoral sanctions can identify individuals operating in sections of a sanctioned economy, such as those published by OFAC regarding persons operating in sectors of the Russian economy.¹²⁴ Sanction lists will often include names of known terrorist organisations or individuals. The concerned regulatory body can impose a substantial financial and/or economic penalty if a sanction regulation is ignored or not applied to its full extent.

Sanction issues continue to cause problems in trade transactions, including those that are subject to ICC rules. This necessitated, in 2014, the release of a sanctions guidance paper by the ICC Banking Commission, updated in March 2022.¹²⁵ Note also an amendment in March 2025 to this document.¹²⁶

The paper focuses on three main issues:

- Impact of proliferation of sanctions clauses in trade finance-related instruments subject to ICC rules.
- Specimen sanctions clauses encountered in practice.
- Recommendations for best practices.

12.7 Fraud

There is no single definition that is used globally to describe the act of ‘fraud’ but the following from the Oxford English Dictionary may come close, “Wrongful or criminal deception intended to result in financial or personal gain.”

In section 15(4) of the UK Theft Act 1968, ‘deception’ refers to “any deception (whether deliberate or reckless) by words or conduct as to fact or as to law, including a deception as to the present intentions of the person using the deception or any other person”. In simple terms, this means that fraud includes any intentional or deliberate act to deprive another of property or money by guile, deception or other unfair means.



Fraudulent trade transactions have existed since trading began many thousands of years ago. All parties in trade need to be aware of the potential for fraud:

- **Buyers** run the risk of paying for sub-standard (or even non-existent) goods;
- **Sellers** run the risk of not receiving funds despite having shipped goods according to the contract;
- **Banks** run the risk of being involved in a fraudulent transaction and suffering an ensuing financial loss.

Lord Diplock (1907–1985), an English judge, made reference to fraud in documentary credit transactions as: “documents that contain, expressly or by implication, material representations of fact that to his [the issuer’s] knowledge are untrue”.¹²⁷

As with financial crime, banks need to introduce processes, procedures and/or guidelines for the identification and internal escalation of fraudulent transactions in order to minimise any potential financial loss. Identifying fraudulent documents often comes down to experience – the look, the feel, the content and the layout of the paper. See also the *flow* article [‘Fighting trade-related fraud’](#).¹²⁸

The ICC Commercial Crime Services is based in the UK and has a specialist Financial Investigation Bureau (FIB) that “conducts enquiries and investigations into matters associated with money laundering, fraud and suspect documents”.¹²⁹ It also provides training on how to spot suspicious documentation.

12.8 Red flags

There exist certain features in trade finance transactions that may provide a warning sign that closer attention is required. These include:

- No requirement for an original or copy transport document and/or pre-accepted discrepancies.
- Inconsistency with customer strategy and/or unnecessarily complex structure and/or non-standard clauses.
- Excessive client pressure and/or avoidance to provide clarity.
- Description of goods not matching, and/or military or potentially dual-use goods.
- Inconsistent shipment locations/quantity of goods exceeds known capacity of containers or usual form of packing.
- Changes of address.
- Unusually favourable payment terms.

The above list is not exhaustive and each bank should ensure it has its own comprehensive list and guidelines.¹³⁰

The FATF has also identified various red-flag indicators that are routinely used to identify trade-based money laundering activities.¹³¹ These cover the following areas:

- About the client
- Source of funds
- Choice of lawyer
- Nature of the retainer

12.9 Industry groups

Several international bodies have been established to combat financial crime, with part of their remit to provide tools to help prevent and/or identify suspect transactions. Many countries have a financial intelligence unit (FIU) that will provide information on current money laundering and terrorist financing trends.¹³²



12.9.1 The Financial Action Task Force (FATF)

The FATF is an inter-governmental body established in 1989 by the Ministers of its Member jurisdictions, with 39 members across 37 countries. The objectives of the FATF are to set standards and promote effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a “policy-making body”, which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas.¹³³

12.9.2 The Wolfsberg Group

The Wolfsberg Group is an association of 13 global banks whose aims are to develop financial services industry standards, and related products for KYC, Anti-Money Laundering and Counter-Terrorist Financing policies.¹³⁴

12.9.3 GLEIF

Established by the Financial Stability Board (FSB) in June 2014, the Global Legal Entity Identifier Foundation (GLEIF) is tasked to support the implementation and use of the Legal Entity Identifier (LEI). The foundation is backed and overseen by the Regulatory Oversight Committee, representing public authorities from around the world that have come together to jointly drive forward transparency within the global financial markets.¹³⁵

A key asset to ensuring interoperability within trade finance – and more broadly – is the LEI. The LEI is a 20-character, alpha-numeric code – based on the ISO 17442 – that enables the clear and unique identification of legal entities participating in financial transactions. Each LEI contains information about an entity's ownership structure and thus answers the questions of “who is who?” and “who owns whom?”. Simply put, the publicly available LEI data pool can be regarded as a global directory, which greatly enhances transparency in the global marketplace.

Considering the rise in fraudulent activities, the increased regulatory scrutiny and the rising cost of correspondent banking, especially towards compliance-related functions such as KYC and the increased sensitivity of accurate and reliable data for client identification in payments transactions, the LEI has the potential to become a valuable tool supporting the banks' efforts in this area.¹³⁶ The FSB,¹³⁷ for example, has emphasised that global adoption of the LEI underpins multiple “financial stability objectives” and also offers “many benefits to the private sector”.

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