Trade Finance Program
Workshop on Operational Procedures

Building Partnerships for Trade

Agenda

What is TFP?

How to apply for an ADB guarantee?

Workflow: Confirming Bank applies for guarantee

Workflow: Issuing Bank applies for guarantee

Processing amendments

Guarantee fees

Contact details

What is TFP?

ADB's Trade Finance Program (TFP) provides guarantees and loans in 24 hours to banks to support trade.

- Initially approved in 2003 with a $150 million limit
- Increased to $1 billion in 2009
- Operates in 22 countries
- Works with over 200 banks

What are TFP Objectives?

- Fill market gaps
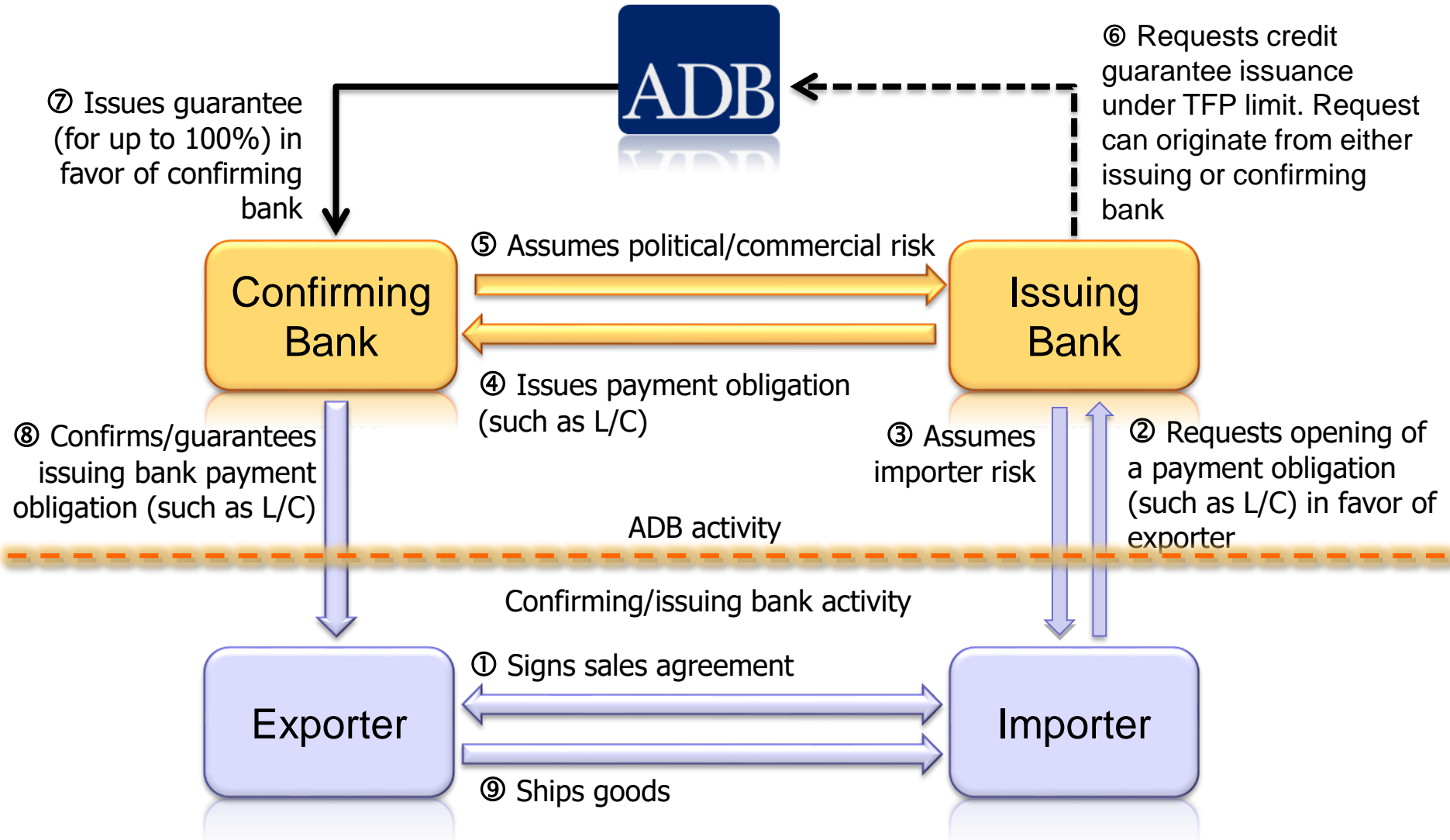- Strengthen banking sector

ADB | TFP Trade Finance Program

Benefits to participating banks

1 Expand relationships with correspondent banks

2 Increase credit lines

3 Reduce cash collateral requirements

4 Enhance ability to maintain/attract clients

5 Back-up in crises

ADB TFP Trade Finance Program

Credit Guarantee Product

ADB provides guarantees in **24-48 hours** to confirming banks covering up to 100% of non-payment risk.

ADB

⑥ Requests credit guarantee issuance under TFP limit. Request can originate from either issuing or confirming bank

⑦ Issues guarantee (for up to 100%) in favor of confirming bank

Confirming Bank

⑤ Assumes political/commercial risk

Issuing Bank

④ Issues payment obligation (such as L/C)

⑧ Confirms/guarantees issuing bank payment obligation (such as L/C)

③ Assumes importer risk

② Requests opening of a payment obligation (such as L/C) in favor of exporter

ADB activity

Confirming/issuing bank activity

Exporter

① Signs sales agreement

Importer

⑨ Ships goods

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Two ways of applying for ADB guarantee

1. Originating bank is the **Confirming Bank**

   or

2. Originating bank is the **Issuing Bank**

Originating Bank is the Bank that applies for an ADB guarantee.

Note:
ADB's guarantee fees are borne by the originating bank.

Agenda

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How to apply for an ADB guarantee?

Workflow: Confirming Bank applies for guarantee
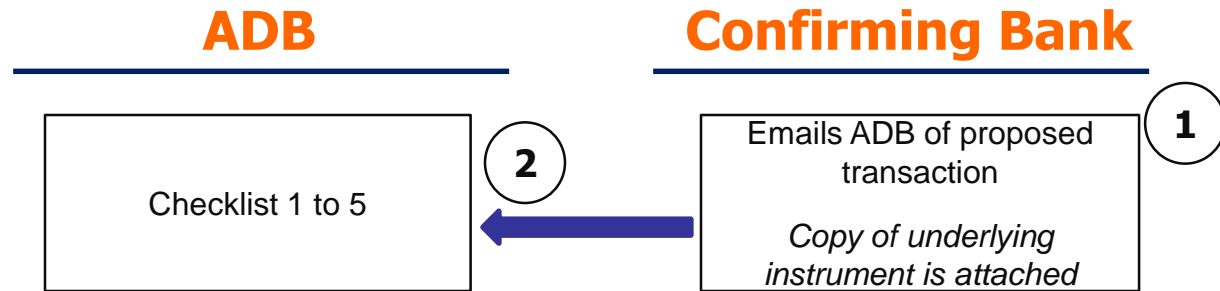
Workflow: Issuing Bank applies for guarantee

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ADB | TFP Trade Finance Program

Process flow (Originating Bank is Confirming Bank)

ADB   **Confirming Bank**

Checklist 1 to 5

②

Emails ADB of proposed transaction

Copy of underlying instrument is attached

①

ADB TFP Trade Finance Program

7-step checklist (Originating Bank is Confirming Bank)

(1) Transaction eligible?

☑ Involves export from, or import to, a Developing Member Country [1]

☑ Underlying goods are not in the excluded goods & commodity list [2]

☑ Denominated in USD, EUR, or JPY

(2) Issuing Bank is a TFP participant?

☑ Issuing Bank Agreement has been signed and is effective [3]

Notes:

1. List of DMCs available at **https://www.adb.org/countries/main**

2. Please see Annex A for list of excluded goods and commodities (same list as Annex 3 of CBA)

3. List of eligible Issuing Banks available at **https://www.adb.org/site/trade-finance-program**

ADB TFP Trade Finance Program

7-step checklist (Originating Bank is Confirming Bank)

(3) Confirming Bank is a TFP participant? [4]

- ☑ Confirming Bank Agreement has been signed
- ☑ Branch is a designated branch to receive ADB Guarantees
- ☑ No unpaid dues to ADB

(4) Amount and tenor within limits?

(5) Issuing Bank in compliance with IBA covenants?
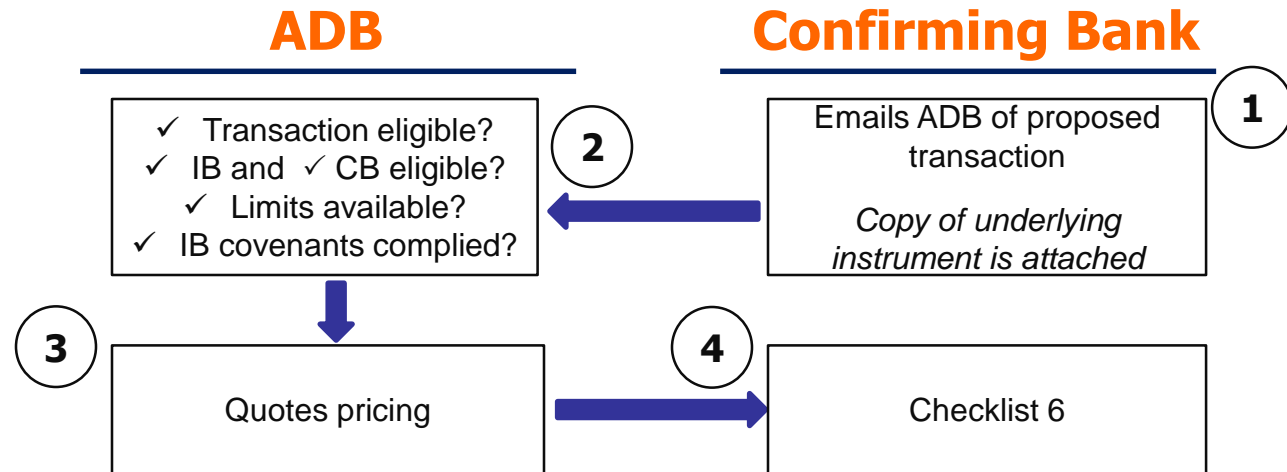
- ☑ Operational reports submitted
- ☑ Financial covenants are in compliance

Notes:
4. List of eligible Confirming Banks available at **https://www.adb.org/site/trade-finance-program**

ADB TFP
Trade Finance Program

Process flow (Originating Bank is Confirming Bank)

ADB

Confirming Bank

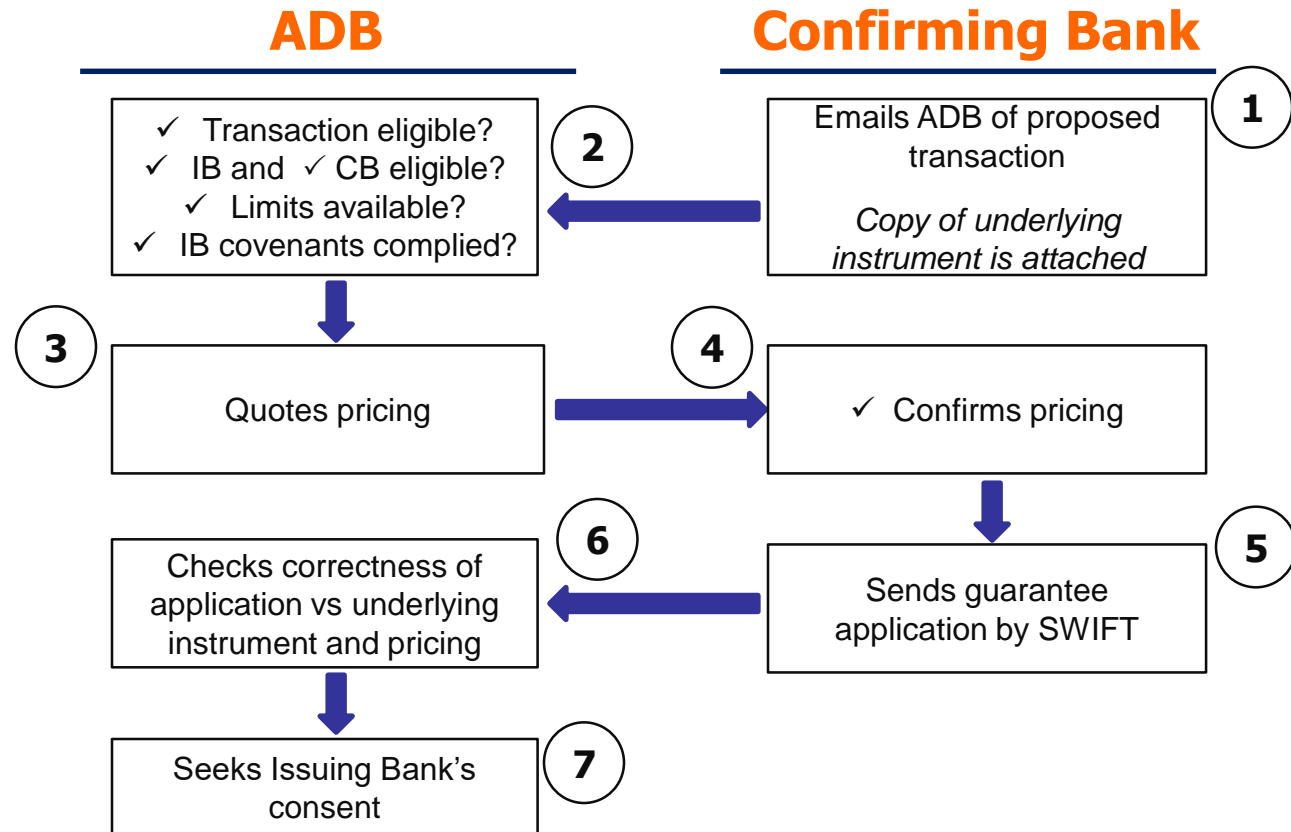| ADB		Confirming Bank
✓ Transaction eligible? ✓ IB and ✓ CB eligible? ✓ Limits available? ✓ IB covenants complied?	**(2)** ←	**(1)** Emails ADB of proposed transaction *Copy of underlying instrument is attached*
↓		
(3) Quotes pricing	→	**(4)** Checklist 6

7-step checklist (Originating Bank is Confirming Bank)

6 Pricing agreed? [5]

Notes:
5. Please refer to Section 4.1 of the CBA.

ADB TFP Trade Finance Program

Process flow (Originating Bank is Confirming Bank)

ADB   **Confirming Bank**

ADB		Confirming Bank

(1) Emails ADB of proposed transaction

Copy of underlying instrument is attached

(2) ✓ Transaction eligible?
✓ IB and ✓ CB eligible?
✓ Limits available?
✓ IB covenants complied?

(3) Quotes pricing

(4) ✓ Confirms pricing

(5) Sends guarantee application by SWIFT

(6) Checks correctness of application vs underlying instrument and pricing

(7) Seeks Issuing Bank's consent

ADB   TFP
Trade Finance Program

Process flow (Originating Bank is Confirming Bank)

Issuing Bank

ADB

Confirming Bank

1 Emails ADB of proposed transaction

Copy of underlying instrument is attached

2
- ✓ Transaction eligible?
- ✓ IB and ✓ CB eligible?
- ✓ Limits available?
- ✓ IB covenants complied?

3 Quotes pricing

4
- ✓ Confirms pricing

5 Sends guarantee application by SWIFT

6 Checks correctness of application vs underlying instrument and pricing

7

8 Checklist 7

Seeks Issuing Bank's consent

ADB TFP Trade Finance Program

7-step checklist (Originating Bank is Confirming Bank)
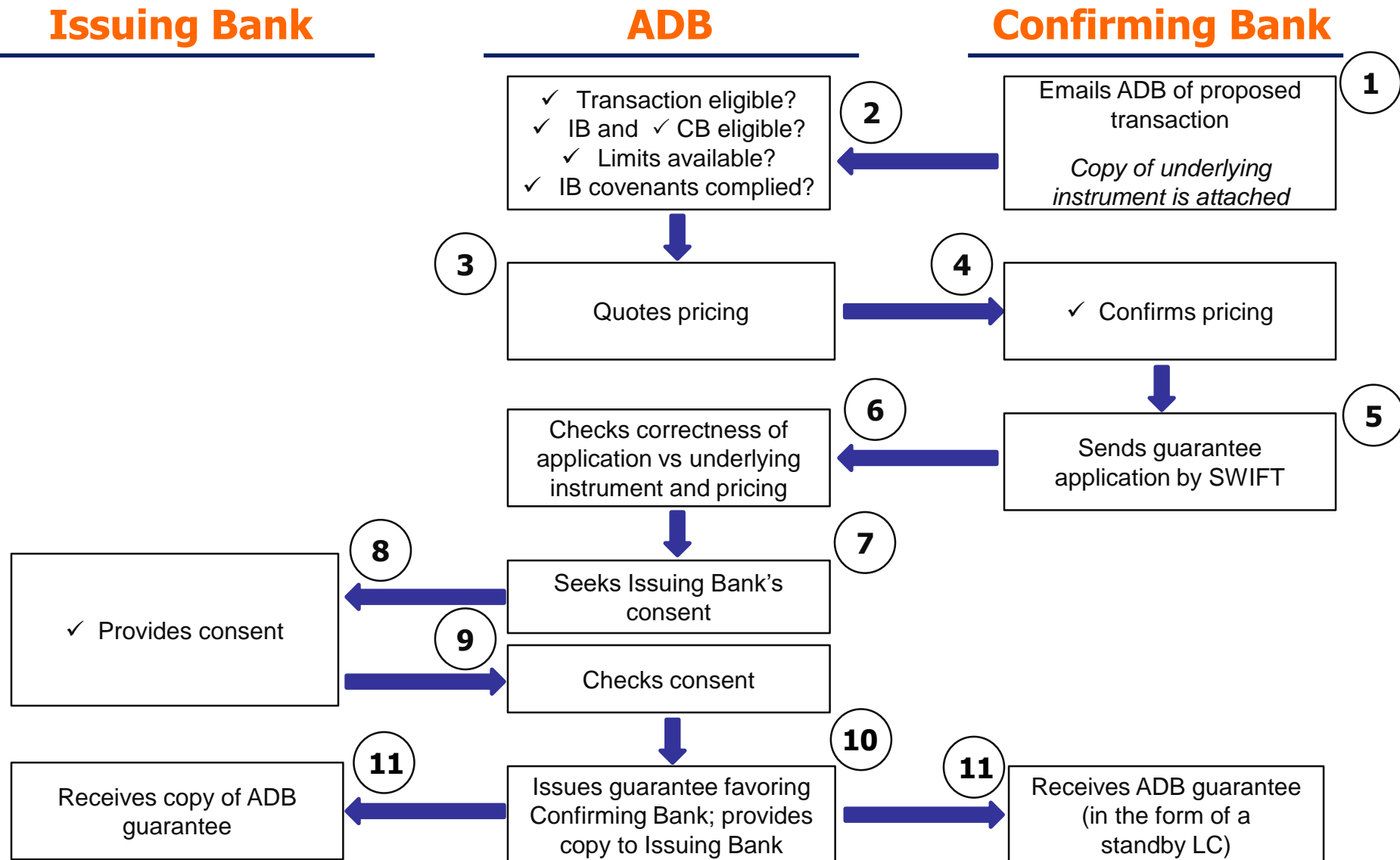
6 Pricing agreed? [5]

7 Issuing Bank consents to the guarantee issuance?

- ☑ Should be provided within 10 calendar days; no response=no consent
- ☑ Via SWIFT or email depending on agreement with the Issuing Bank

Notes:
5. Please refer to Section 4.1 of the CBA.

Process flow (Originating Bank is Confirming Bank)

Issuing Bank	ADB	Confirming Bank

1 — Emails ADB of proposed transaction

Copy of underlying instrument is attached

2 → ADB:
- ✓ Transaction eligible?
- ✓ IB and ✓ CB eligible?
- ✓ Limits available?
- ✓ IB covenants complied?

3 — Quotes pricing

4 — ✓ Confirms pricing

5 — Sends guarantee application by SWIFT

6 — Checks correctness of application vs underlying instrument and pricing

7 — Seeks Issuing Bank's consent

8 — ✓ Provides consent

9 — Checks consent

10 — Issues guarantee favoring Confirming Bank; provides copy to Issuing Bank

11 — Receives copy of ADB guarantee

11 — Receives ADB guarantee (in the form of a standby LC)

❖ Please see Annex 1 of the CBA for the form of ADB Guarantee

7-step checklist (Originating Bank is Confirming Bank)

1 Transaction eligible?

2 Issuing Bank is a TFP participant?

3 Confirming Bank is a TFP participant?

4 Amount and tenor within limits?

5 Covenants of IBA complied?

6 Pricing agreed?

7 Issuing Bank consents to guarantee issuance?

ADB TFP Trade Finance Program

Agenda

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ADB TFP Trade Finance Program

Process flow (Originating Bank is Issuing Bank)

Issuing Bank   **ADB**

① 1

| Emails ADB of proposed transaction | → | ② 2 | Checklist 1 to 5 |
| *Copy of underlying instrument is attached* | | | |

ADB TFP Trade Finance Program

6-step checklist (Originating Bank is Issuing Bank)

1 Transaction eligible?

- ☑ Involves export from, or import to, a Developing Member Country [1]
- ☑ Underlying goods are not in the excluded goods & commodity list [2]
- ☑ Denominated in USD, EUR, or JPY

2 Issuing Bank is a TFP participant?

- ☑ Issuing Bank Agreement has been signed and is effective [3]

Notes:

1. List of DMCs available at **https://www.adb.org/countries/main**

2. Please see Annex A for list of excluded goods and commodities (same list as Annex 3 of CBA)

3. List of eligible Issuing Banks available at **https://www.adb.org/site/trade-finance-program**

ADB TFP
Trade Finance Program

6-step checklist (Originating Bank is Issuing Bank)

(3) Confirming Bank is a TFP participant? [4]

- ☑ Confirming Bank Agreement has been signed
- ☑ Branch is a designated branch to receive ADB Guarantees
- ☑ No unpaid dues to ADB

(4) Amount and tenor within limits?

(5) Issuing Bank in compliance with IBA covenants?

- ☑ Operational reports submitted
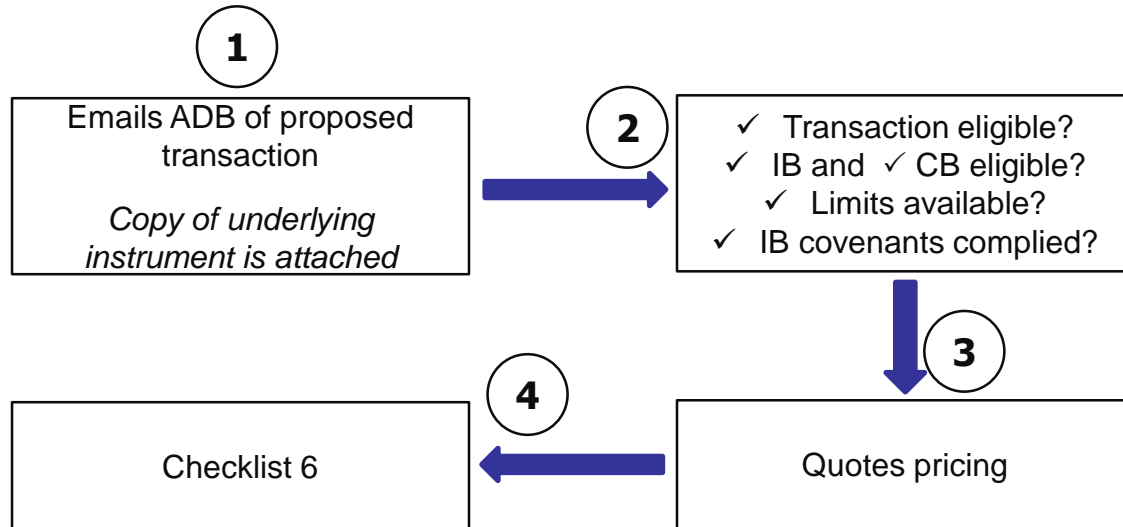- ☑ Financial covenants are in compliance

Notes:
4. List of eligible Confirming Banks available at **https://www.adb.org/site/trade-finance-program**

ADB   TFP Trade Finance Program

Process flow (Originating Bank is Issuing Bank)

Issuing Bank

ADB

1

Emails ADB of proposed transaction *Copy of underlying instrument is attached*

2

✓ Transaction eligible? ✓ IB and ✓ CB eligible? ✓ Limits available? ✓ IB covenants complied?

3

Quotes pricing

4

Checklist 6

ADB TFP Trade Finance Program

6-step checklist (Originating Bank is Issuing Bank)

6 Pricing agreed? [5]

Notes:

5. Please refer to Section 4.1 of the CBA.
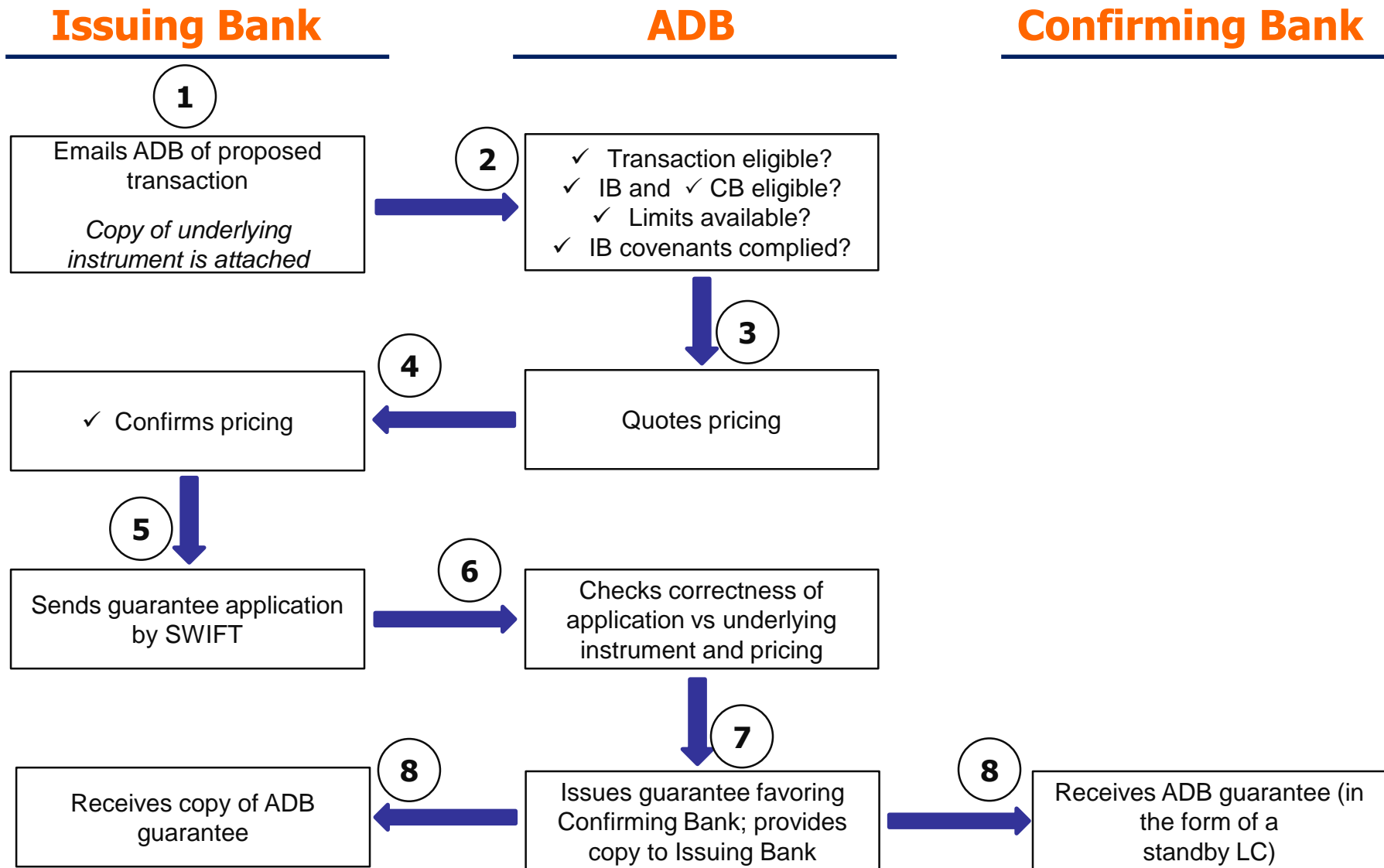
ADB TFP Trade Finance Program

Process flow (Originating Bank is Issuing Bank)

Issuing Bank

ADB

1

Emails ADB of proposed transaction

Copy of underlying instrument is attached

2
- ✓ Transaction eligible?
- ✓ IB and ✓ CB eligible?
- ✓ Limits available?
- ✓ IB covenants complied?

3

4

✓ Confirms pricing

Quotes pricing

5

Sends guarantee application by SWIFT

Process flow (Originating Bank is Issuing Bank)

Issuing Bank	**ADB**	**Confirming Bank**

1 Emails ADB of proposed transaction

Copy of underlying instrument is attached

2
- ✓ Transaction eligible?
- ✓ IB and ✓ CB eligible?
- ✓ Limits available?
- ✓ IB covenants complied?

3

4 ✓ Confirms pricing

Quotes pricing

5 Sends guarantee application by SWIFT

6 Checks correctness of application vs underlying instrument and pricing

7

8 Receives copy of ADB guarantee

Issues guarantee favoring Confirming Bank; provides copy to Issuing Bank

8 Receives ADB guarantee (in the form of a standby LC)

❖ Please see Annex 1 of the CBA for the form ADB Guarantee

6-step checklist (Originating Bank is Issuing Bank)

1 Transaction eligible?

2 Issuing Bank is a TFP participant?

3 Confirming Bank is a TFP participant?

4 Amount and tenor within limits?

5 Covenants of IBA complied?

6 Pricing agreed?

❌ Issuing Bank consents to guarantee issuance?

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ADB TFP Trade Finance Program

Material Amendments: 5-step procedure

1. Inform ADB of the proposed **material amendment***

* Increase in amount
* Extension of tenor
* Change in nature of goods
* Change in applicant or bene
* Change in currency or terms of acceptance or payment

Note: Please refer to Section 5 of the CBA.
If amendment is not material, consent and pricing are not required

Material Amendments: 5-step procedure

1. Inform ADB of the proposed **material amendment***

2. ADB consents to the proposed amendment and quotes price for Guarantee Extension Fee

3. Confirming Bank or Issuing Bank sends SWIFT message to request for amendment and agreement to pricing

4. ADB seeks Issuing Bank's consent if request for amendment is from the Confirming Bank (and vice versa)*

5. Once consent is received, ADB amends its guarantee

* By SWIFT or email depending on agreement with the Issuing Bank

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ADB TFP
Trade Finance Program

Guarantee Fees

- ✓ Guarantee Fee is borne by **Originating Bank**

- ✓ ADB **Controller's Department** sends billing via SWIFT

- ✓ **Payable quarterly** in arrears, in **same currency** as the underlying instrument

- ✓ **Confirming Bank** should inform ADB of **payments/ reimbursements** by SWIFT; guarantee fees will be adjusted accordingly **

** Please refer to Section 6.1 of the CBA.

Guarantee Fees

- ✓ Computed based on actual no. of days / 360, from date of issuance of guarantee to the **earlier** of :

  - ADB guarantee expiry date*** or
  - Date ADB is notified by the Confirming Bank via SWIFT of payments/reimbursements by the Issuing Bank

- ✓ If originating bank is **Issuing Bank**, please advise ADB on any payment/reimbursement made; ADB will endeavor to contact the Confirming Bank to confirm such payment/ reimbursement

*** ADB guarantee is valid up to 15 days from expiry of underlying instrument (if sight), or from end of deferred payment period (if deferred)

Guarantee Fees: Cut-Off and Due Dates

Guarantee Period		Cut-Off	Due Date
From	To		
01-Dec	28-Feb*	28-Feb*	31-Mar
01-Mar	31-May	31-May	30-Jun
01-Jun	31-Aug	31-Aug	30-Sep
01-Sep	30-Nov	30-Nov	31-Dec

* 29-Feb if leap year

ADB TFP Trade Finance Program

Guarantee Fees

Example : ADB issues guarantee

- ➢ Issue Date of ADB Guarantee :   3 August 2016
- ➢ LC Expiry :   30 November 2016
- ➢ Terms of payment of LC : Sight
- ➢ ADB Guarantee Expiry : 15 December 2016 (15 days after LC Expiry)
- ➢ Amount : US$ 1.0 million
- ➢ Guarantee Fee Rate : 3.5 % p.a.

Guarantee Period		Cut-Off	Due Date
From	To		
01-Dec	28-Feb*	28-Feb*	31-Mar
01-Mar	31-May	31-May	30-Jun
01-Jun	31-Aug	31-Aug	30-Sep
01-Sep	30-Nov	30-Nov	31-Dec

* 29-Feb if leap year

First Cut-off: 31-Aug-2016
First Due-date: 30-Sep-2016

Final Cut-off: 28-Feb-2017
First Due-date: 31-Mar-2017

ADB TFP Trade Finance Program

Guarantee Fees

Guarantee Period			Amount Due	Due Date
From	**To**	**No. of Days**		
03-Aug-16	31-Aug-16	29 *	$ 2,819.44	30-Sep-16
01-Sep-16	30-Nov-16	91 *	$ 8,847.22	31-Dec-16
01-Dec-16	15-Dec-16	14 **	$ 1,361.11	28-Feb-17
Total		**134**	**$13,027.78**	

* Includes 'From' and 'To' dates

** Includes 'From' date (1-Dec-16) but excludes 'To' date (15-Dec-16)

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Trade Finance Program

Contact Details

For county-specific contacts:
https://www.adb.org/site/trade-finance-program/contacts

Please always copy:
✉: tradefinanceunit@adb.org