

Trade Finance Definitions – Risk Clusters

The definitions described herein are relatively low risk trade transactions and have been used in the market for hundreds of years. To further distinguish the product definitions, we offer the following suggestions for assessing risk:

A. Risk Cluster A – pertaining to Trade Finance products regulated by Uniform Customs & Practices (UCP) or similar guidelines

1. **AAA** – Represents all products that are off-balance sheet liabilities without any direct liquidity outflow
 - a) Collections
 - b) Commercial LCs
 - c) Standby LCs
 - d) Letters of Guarantee
2. **AA** – pertaining to Trade Finance products that impose on-balance sheet liabilities with future direct liquidity outflow
 - a) Acceptances
 - b) Bills of Exchange / Promissory Notes
 - c) Deferred Payments
 - d) Trust Receipts / Shipping Guarantees
 - e) Silent Confirmation
3. **A** – pertaining to Trade Finance products that impose on-balance sheet liabilities with immediate direct liquidity outflow
 - a) Negotiations
 - b) Assignment of LC Proceeds
 - c) Forfeiting of deferred payment LCs and bills of exchange
 - d) LC Refinancing / Reimbursement undertaking

B. Risk Cluster B – pertaining to Trade Finance products NOT regulated by Uniform Customs & Practices (UCP) or similar guidelines, but typically secured by specific tangible trade assets

1. Forfeiting / discounting of approved trade receivables or payables
2. Red Clause LCs
3. Green Clause LCs
4. Post-shipment Finance

C. Risk Cluster C – pertaining to Trade Finance products NOT regulated by Uniform Customs & Practices (UCP) or similar guidelines, with or without specific tangible trade assets held as security

1. Import Trade Loans
2. Export Trade Loans