



February 9, 2022

Mr. Andrew Wilson
Global Policy Director
International Chamber of Commerce
33-43 avenue du Président Wilson
75116 Paris, France

Dear Mr. Wilson and Members of the SteerCo Group:

BAFT (The Bankers Association for Finance and Trade) appreciates the opportunity to comment on the Standards for Sustainable Trade & Sustainable Trade Finance Positioning Paper.

In October 2021, BAFT launched a global working group on sustainability to address five priorities: 1) standards for sustainable transaction banking, 2) principles on how to apply 'Net Zero' to transaction banking, 3) guidance on sustainability reporting, 4) advocacy and education on sustainable transaction banking, and 5) industry approach for full spectrum of ESG – beyond the “E”. As noted in our above priorities, BAFT’s Sustainability working group places high value in the development of standards for sustainable trade finance and seeks to ensure that there is one common standard that the industry can reference. Our members welcomed the publication of the ICC positioning paper, and discussed its content in detail. Our collective comments and observations are included in the pages that follow.

BAFT would welcome the opportunity for future dialogue on the topics raised and appreciate you taking into account our working group’s perspective. Should further discussion of any of these matters be desired, please do not hesitate to contact me at drodriguez@baft.org.

Very truly yours,

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BAFT Sustainability Working Group Comments on ICC Positioning Paper

2. CONTEXT & BACKGROUND: WHY SUSTAINABLE TRADE?

- *RECOMMENDATION:* Further elaboration on the drivers for sustainable transaction banking such as the changing and more stringent regulatory landscape and societal expectations, with a focus on potential benefits ("what's in it") to incentivize banks to support sustainable transaction banking.
- *RECOMMENDATION:* Paragraph 2 should specify what the existing "related standards for sustainable goods and services and financial products" are and address existing regulations.

3. ROLE OF THIS DOCUMENT & PROGRAMME ROADMAP

- *RECOMMENDATION:* In paragraph 1, specify who the targeted key stakeholders are.

4. PURPOSE, OBJECTIVES AND AUDIENCE

4.1 Our Purpose, Target Outcomes, and Objectives

- *CLARIFICATION:* One of the objectives is to "bridge the gap in current standard frameworks for recognizing and tracking sustainability in trade and trade finance". Since there is no standard framework in the industry, can you elaborate on what constitutes a current standard framework and how the gap (and what that is) is addressed with the new proposed ICC standards?

4.2 Target Audience

- *RECOMMENDATION:* Under the "Financial institutions and NBFIs", add multi-lateral agencies and parties in trade transactions

5. SCOPE & FRAMING PRINCIPLES

5.1 Framing Principles for the Definitions & Standards

- *CLARIFICATION:* How can the standard definition ensure that banks do not penalize non-compliance? It is also important to note that the penalty may not always be monetary. We recommend eliminating that the intention "is not to penalize".
- *RECOMMENDATION:* In addition to "adjusted by sector" in item (iii), we recommend adding, "adjusted by countries taking local and regional elements into



consideration as local taxonomy may differ.” We also recommend including minimum acceptance criteria.

5.2 Scope of Assessment

- CLARIFICATION: Exhibit 1 and its description should provide details how it fits into the assessment. Key observations: (1) only shows an example between an OEM and Wholesaler. There is no illustration how it worked for other industries or business activities (2) Classification under various tiers are not explained.
- CLARIFICATION: The paper covers all upstream stages and direct downstream. To reduce complexity and implement this quickly, should we be focusing just on the immediate upstream instead of on all upstream? This is covered in the section that talks about transportation, where it is suggested that we only consider the immediate step being financed. A further look into this and consistency is required.
- CLARIFICATION: Can you clarify how all upstream stages and the direct downstream stages in the value chain will be considered since this is complex and time consuming.

6. PROPOSED DEFINITIONS & ASSESSMENT

6.1. Proposed Definition

- RECOMMENDATION: Expand "import" to refer instead to "buyer" and "export" to refer instead to "seller", in order to cater for domestic transactions.
- CLARIFICATION: Expand on the definitions to "facilitation", "recognized trade finance instruments".
- CLARIFICATION: It indicated that "sustainable trade" supports one or more SDGs. Further clarify how this is done from transaction banking perspective.
- CLARIFICATION: d) It would be good for the definition to include tenor of the transaction eg. up to one year. Generally, the longer the tenor, the more challenging it will be to qualify the ESG transaction.
- RECOMENDATION: "Without infringing on the achievement of any other SDGs" is not always possible. Although there is synergy and interconnectivity between all SDGs, sometimes there are competing or conflicting (social, environmental and economic) goals. We could replace it with "minimize the negative impact of tradeoffs".
- CLARIFICATION: The definition refers to a specific activity rather than the process. A process may also be at an entity level and not transaction level. Assessment at the transaction level may not be practical (nor desirable). For example, sustainable trade finance evaluated at the level of a facility is more desirable/possible than labeling a one-off, transaction such as an LC that is presented to be confirmed as “sustainable”.



- EXHIBIT 2: It will be difficult to determine if a transaction in itself is contributing to the dimensions. It may be more beneficial to have an exclusion list.

6.2 *Scope of Assessment*

- RECOMMENDATION: This section should address in a more detailed manner how the assessment will be conducted without affecting business operations as well as the estimated period. By whom will the data be collected/verified and at what stage?

6.2.1 *Sustainability Dimensions*

- The simplification of the UN SDG taxonomy is useful and more easily applied when grouped in this manner.

6.2.2 *Components of a Transaction*

- CLARIFICATION: Exhibit 3: It only shows immediate parties (supplier or buyer) involved in the trade transaction. What about the various parties in the value chain? E.g. End-suppliers and end-users.
- CLARIFICATION: Does Sellers/origin include the suppliers of the sellers, exporters?
- CLARIFICATION: Where can the data be obtained and what specifically should be assessed under transition/transportation.

6.3 *Outcomes and Scorecards*

- CLARIFICATION: In order for the descriptor score to yield common, consistent, codifiable, and rapid means of describing and potentially screening the sustainability characteristics of a given transaction assumes that any person who does the assessment arrives at the same score. This is unlikely unless there is a binary outcome.
- The rationale for two different types of outcomes to classify sustainable trade is not evident and potentially further complicates the evaluation process. It is worth considering either an infographic or the descriptor/scorecard, but not both. Or, if both are used initially, the infographic should be phased out once the “overall descriptor or score(card)” becomes available.

6.3.1.2 *Proposed Interim States*

- CLARIFICATION: While the reference to green bond principle is appropriate, we should note that a bond is an episodic activity and typically of high value. Time to launch a bond with due diligence and data requirements are high. Meanwhile, trade transactions are smaller in value and voluminous. This is not a practical



reference unless the assumption is that other multi-year programs such as supply chain finance (payables) programs could leverage the same multi-year KPIs. In which case, it would be helpful to specify this.

6.3.1.3 Roadmap for Moving from Initial to Target State - Exhibit 5:

- **RECOMMENDATION:** It requires more elaboration of how the roadmap (short term, medium term and long term) connects to the target state and suggest that target timelines for each term are also provided.
- **RECOMMENDATION:** Exhibit 5: Requires more elaboration how the scoring framework matrix actually works and how it fits into the standards proposed by ICC
- **CLARIFICATION:** Who is assessing numerical score - consistency will be a challenge. It is critical to clearly define each number.

7. Approach to Defining Standards

7.1. Types of Standards Required

- **RECOMMENDATION:** It indicated the "ICC-recognized sustainability standards" though should elaborate how the "check and balance" mechanism is in place to ensure the standards are adhered to.

7.2. How Standards will be Used

- **RECOMMENDATION:** The paper should address how to handle a situation where standards are driven by regulators and government bodies.

7.3 How ICC Recognized Standards will be Determined

- **RECOMMENDATION:** It should provide clarity who and how the "expert groups affiliated with ICC" are selected and accredited. Their roles and responsibilities in promoting the standards should also be addressed.

8. Areas for Further Input & Next Steps

- **CLARIFICATION:** How will the methodology be applied to FI-FI trade and what is its relevance?



Consolidated Working Group Survey Responses

ICC Survey Question	Response
To what extent do you believe the proposed definitions, standards, and assessment framework will help meet the ICC’s purpose and objectives laid out in the paper?	4
How would you rate the overall comprehensiveness of sustainability issues addressed in the framework?	3
How would you rate the overall comprehensiveness of the components of a trade transaction addressed in the framework?	3
How would you rate the overall level of rigour applied in the standards and assessment framework?	3
How would you rate the feasibility of implementing the definitions, standards, and assessment framework?	3
To what extent do you find the infographic (target state) valuable in providing sufficient visibility on the sustainability of a trade	3
On a scale of 1 to 5, how important do you think having an overall score / descriptor will be to assess sustainability in trade?	4
Which of the descriptor options laid out by the ICC do you find is most fit-for-purpose?	Alphabetical Score
To what extent do you agree with the approach laid out by the ICC of leveraging existing standards & definitions for assessment?	4