DETAILED MINUTES OF THE

U.S. DEPARTMENT OF COMMERCE

TRADE FINANCE ADVISORY COUNCIL

MEETING ON SEPTEMBER 18, 2017

I certify that I was present at the above reported meeting and that the summary of the meeting is accurate.

Chris Bozek

Chairman, Chris Bozek

12/14/17

Date

If applicable: (Please note that each paragraph must be marked.)

CLASSIFIED BY: N/A

REASON: N/A

DECLASSIFY ON: N/A

Attachments below include Meeting Minutes and List of Attendees

TRADE FINANCE ADVISORY COUNCIL
Public Meeting
September 18, 2017 ‖ 2:00 – 3:00pm (EDT)

Via conference call
Phone: 1-877-951-7311 - Participant Code: 1797912

WELCOME AND OPENING REMARKS

The Council's Designated Federal Officer (DFO), Ericka Ukrow, opened the meeting, introduced the Department of Commerce Deputy Assistant Secretary officiating the meeting, James Sullivan, and additional Commerce's Office of Finance and Insurance Industry staff present.

The DFO continued to do a roll call of TFAC members first, then U.S. Government attendees, and finally any members of the public.[1]

James Sullivan, Deputy Assistant Secretary (DAS) for Services Industries, Industry & Analysis, International Trade Administration, U.S. Department of Commerce, welcomed members and attendees. Thanked members for their service and especially the working group that developed the recommendations to be discussed at the meeting. He underscored that trade finance is a policy priority for the Trump Administration, especially for the U.S. Small and Medium Enterprises (SMEs) segment. DAS Sullivan also expressed his and the Administration's commitment to supporting TFAC and trade finance.

Chair Bozek welcomed members and the audience. He underscored the mission of the Council and its member's diverse expertise with the common denominator being their commitment to increase exports of US goods and services. Chair Bozek discussed the Council's substantial progress, since its establishment, developing impactful recommendations and outlined some of the work underway:

- Leveraging best practices from state, federal, and global programs, including ECA programs to increase SME credit and risk cover;
- Creating SME credit capacity through capital and tax policy;
- Reducing the knowledge and information gap for exporters and their providers, by tooling government agencies, community banks and other enablers of SME finance
- Identifying and addressing process obstacles impeding to SME credit, from data standardization, KYC, others by levering technology, Fintech and innovation.

Chair Bozek emphasized that the TFAC expedited the public meeting in order to deliberate recommendations for the Secretary on "Increasing Credit Capacity for U.S. SME Exporters" tied to tax reform, to be discussed by the Administration in the fall. He introduced the working group

[1] See attendance log attached for details.

lead and next speaker, Adam Dener, and noted the collective efforts of the working group members Sergio Rodriguera, Stacey Facter, Sam Hodges, Mark Roberts, and Lauren Wilk.

WORKING GROUP PRESENTATION: RECOMMENDATION ON "INCREASING CREDIT CAPACITY FOR U.S. SME EXPORTERS"

Mr. Dener highlighted the 3 core areas of the TFAC's Charter:

1. Evaluate credit conditions and specific financing challenges
2. Identify emerging financing sources that could address those challenges
3. Recommend specific activities that could be implemented to achieve the goal of expanding SME credit.

Mr. Dener referenced two documents that were developed as part of the working group's analysis: (1) a PowerPoint Credit Review presentation that documents research and credit conditions, financing challenges and emerging financing sources; and (2) a background document with a summary of the materials and description of the 2 recommendations to be deliberated at the meeting.

Mr. Dener noted two elements considered in their evaluation leading to the two recommendations:

- There are no data sources that specifically identify credit consumption by purpose of consumption or size (i.e., data not specific to SMEs, nor on credit use for exports)
- In identifying financing sources their focus was on private sector capital as opposed to government programs

Five guiding principles were also used in development of these recommendations:

1. Attempting to address an extremely large credit gap of approximately $1.5 trillion
2. This credit gap is for corporate lending only, excluding lending to banks or others overseas
3. Cannot specify credit consumption, thus cannot determine whether the credit gap disproportionally impacts SMEs or exporters
4. Interpreted "emerging financial sources" to mean non-government sources of capital
5. The goal is to minimize incentives required to enable action and the role of the government, but in turn leading to sustainable financing

Drivers of the corporate credit gap identified include bank regulation, funding regulation, monetary policy, and tax policy. From the four drivers, the Administration and Legislative branches only have direct oversight over tax policy.

Given the size and scope of the deficit, the capital markets and specifically the investment management community were identified as both potential capital sources and as a channel to reach borrowers to deploy capital to SMEs and exporters. Prospective capital sources would be (a) either directly or through investment managers, institutional investors in the broad fixed income market, or (b) a subset of these institutional investors, corporate treasuries, and most specifically large corporate treasuries with the multi-trillion dollar pool of offshore money held at a lower tax rate.

The decision was not to pursue creating securities out of private credit, given a myriad of potential obstacles, the least of which was the post-financial crisis response to similar type of activity in the mortgage market. Thus, an alternative route of funding development was considered upon investors directly investing as lenders or working with Investment Managers. Potential issues with this route: (1) this type of credit would not have a credit rating, thus investors would need to perform more detailed risk analysis, and (2) investors typically don't have the infrastructure to make loans to SMEs nor to evaluate loans to SMEs made by others that could be purchased for investment.

First Recommendation: The Secretary of Commerce should recommend to the Administration, particularly the Treasury Department, to consider a tax repatriation waiver with the waived taxes used to create private capital funding that can be lent to SMEs. Analysis suggests that the large build-up of off-shore earnings qualifies as a sizable potential source of capital. Commerce should recommend that the Administration consider waiving taxes on un-repatriated earnings, provided that the tax waiver beneficiary agrees to lend the repatriated amount to SMEs in consideration of the waiver.

Example provided: Allow large corporate "A" to bring $100 billion onshore avoiding a $20 billion tax payment (assuming a 20% repatriated income rate), where corporation "A" would lend the $100 billion over a period of time to a universe of SMEs to benefit from the waiver. Noted accounting implications to be considered as part of the program.

Second Recommendation: Create an incentive program for companies to manage direct lending programs to SMEs. The Commerce-administered program would provide one-time grants to investment managers to arrange funding capital to be lent to SMEs.

The purpose of the grant is to incentivize investment managers to create new products, arrange investors and invest in the infrastructure to originate or acquire loans made to SMEs, in order to increase the size of the market that can purchase this kind of unrated credit so that investors and firms extend credit to such borrowers. The incentives would be to investment management firms since these are regulated and meet fiduciary standards. The incentives would be one-time in nature so that the funds set-up are sustaining sources of ongoing lending.

Additional considerations: (a) limits on stock and debt repurchases, in the case of repatriation, should be placed on any program, to avoid previous tax holiday outcomes; (b) agencies' oversight of either initiative would need to be further developed; (c) repatriation programs should be integrated with other tax and revenue based considerations and, thus, require various government agencies' involvement.

The goal of these recommendations is to address the gap in SME financing, they each seek to create a new "channel" of credit flow to the real economy intermediated by the private sector. As tax policy and reform are key priorities for the Administration, as is supporting small businesses and exporters, expediency on the review of these recommendations was underscored.
Specific pages of the report referenced that informed their recommendations:

- Page 12: credit approximately $1.5 trillion lower than it would have been absent changes in bank and funding regulation, monetary policy and tax policy.

- Page 30: impacts from bank and funding regulation – specifically Basel II and III and not Dodd Frank.
- Page 29: constrained access to credit by SMEs
- Pages 22 and 25: SMEs job growth and wage growth constrained
- Pages 26 and 19: larger share of Federal taxes proportionally paid by individuals and SMEs
- Page 13: reduction in SME credit appears correlated to constraining GDP, where this reduction is particularly impacting SMEs. While not specifically addressing SMEs as exporters there is no basis to conclude that these are not equally impacted by any reduction.
- Pages 16-17 and 19-20: offshore earnings in cash held by a select group of about 100 large companies and its impact on credit and GDP. Noted these large companies' ability to raise money from public debt markets, which is not widely available to private smaller companies.
- Page 32: monetary policy, including interest rates and quantitative easing of bond buying, had a pronounced impact on credit availability.

In conclusion, Mr. Dener noted that absent changes in tax policy, bank and funding regulation, absent higher interest rates and higher growth, there is limited likelihood of change in prevailing credit conditions, remarking the sizable deficit. Thus, the objective of both recommendations is to quickly develop sizable pools of private capital to be allocated in the real economy by the private sector, while minimizing government resources and/or interdependency in order to increase SME lending, ideally for exports. These recommendations would enable SME lending and increase GDP, he noted.

Concluding, Mr. Dener noted that the current Administration has made manufacturing a priority for job creation. He underscored that providing more credit to SMEs, especially exporters, is key for these businesses to grow and hire more workers. He also pointed out that financing SMEs is a non-partisan issue that has widespread support from Congress and the White House.

DISCUSSION ON RECOMMENDATION AND PUBLIC COMMENTS

Chair Bozek asked "the recommendation shows a clear path to increasing overall or general lending to SMEs. As TFAC's mission is to increase U.S. exports, can you comment on the linkage of this recommendation specifically related to U.S. exporting?"

Mr. Dener explained that as it relates to U.S. exporting, since capital itself is fungible there is no restrictive way to limit the use unless there is a particular product restriction to be utilized solely for exporting. There could also be representations and warranties on any program where the company receiving credit would use it as part of its exporting activities. Given the lack of data in identification mechanisms to do so, there is no meaningful way to restrict it and limit it.

Chair Bozek added, the thinking would be that as additional SME working capital is created, it would then allow more production, more jobs and more capabilities to extend all sales, including U.S. exports.

Chair Bozek read a statement on the recommendation sent in advance from TFAC member Kevin Klowden - Milken Institute, who was unable to call-in due to international travel:
"I would like to formally offer my endorsement of the proposal put forth for consideration by the TFAC to pass forward to the Secretary of Commerce being discussed today. I strongly hold, both in my participation in this committee, and in my work outside of it, that providing a

significant increase in capital to small business, particularly for increasing exports, is an essential tool for stimulating economic growth. Furthermore, this recommendation to channel a significant portion of repatriated overseas investments to funds created for lending to small and medium sized enterprises to finance exports is in direct alignment with the public goals of the Administration. Given both the stated aim of the White House, and the Department of Commerce in particular, to boost exports both for the sake of addressing the balance of trade and for job creation, this recommendation seems to be one the Secretary of Commerce should strongly consider. Creating a mechanism that is intended to both put idle expatriated capital to direct use growing the economy, and also to ideally provide a more effective rate of return than such cash would gain in bank accounts, should appeal strongly. I recommend a yes vote on the proposed recommendation being discussed today."

Chair Bozek noted there were no comments from the public sent in advance of the meeting and then opened it up for comments from the public.

Question from the public: David Gustin - Trade Financing Matters, asked if the group interviewed any large corporates to get their input on the program, describing that many of these large corporates have supplier diversity finance programs, p-card programs, work with alternative providers for their customer base and others. He also asked to express their opinion on any public perception of the recommendations as a big corporate tax cut.

Chair Bozek stated that in terms of efficacy and implementation, whether it is redundant to other similar recommendations in the past, it really speaks to the size of the trade finance gap, $1.5 trillion by multiple estimates, including this analysis. Along those lines, he added that it is clear it will take the conduits in the financing channel in place today, this program and other efforts to address this gap from multiple ways.

In terms of interviewing corporates, that certainly should be considered as any program is refined and moves into an implementation stage, reaching out to some of these stakeholders to make sure the input of companies that would actually make this work is considered.

Mr. Dener explained that as part of developing the recommendations the group consulted with a number of external parties, including outreach to corporations and other governmental agencies. He also mentioned there were conversations with people in the investment management community. Mr. Dener also explained that one of the challenges observed in doing such outreach and analysis was that those organizations don't speak uniformly as a group or that it was dependent upon the individual's point of view more than a company position. Thus, in order for the recommendation to be more broadly considered, some type of oversight within the Department of Commerce and the broader Administration and the Treasury Department's involvement would be key.

Addressing the second part of the question, Mr. Dener stated that one of the things they looked in detail was the nature of proposing any incentives and the use of any government funding. The purpose of both recommendations was to minimize both the scope of the incentives and the actual use of government funding, in the former case the incentive to a big company to avoid taxes for getting that tax avoidance to lend that money, could be in fact viewed as being mutually supportive to both companies, a large company and an SME who is getting access to credit that it couldn't otherwise. Thus, the assumption on the surface would be a potentially positive benefit.

VOTING AND ADOPTION OF THE RECOMMENDATIONS

Chair Bozek moved to a motion (roll call) to vote on the recommendations and asked for a member to second the motion. Stacey Facter – BAFT, seconded the motion.

Members voting YES: Chris Bozek, Stacey Facter, Adam Dener, Todd McCracken, Steve Wilburn, Karsten Hermann, Sergio Rodriguera, Mark Roberts, Sam Hodges, Lou Tierno, Gary Mendel, Lauren Wilk.

Members voting NO: None

The recommendations were formally adopted by the TFAC.

NEXT STEPS & CLOSING REMARKS

DAS Sullivan congratulated TFAC members on the adoption of the recommendations. He noted that the TFAC members' expertise and insights are a big asset in helping the Department advance its mission.

Looking ahead, DAS Sullivan underscored the importance of establishing a timeline for next meetings and the delivery of recommendations which would help the Department map out activities for the remainder of the Council's charter term.

The meeting was adjourned.

TRADE FINANCE ADVISORY COUNCIL

Attendance Log

September 18, 2017 | 2:00 – 3:00pm (EDT)

Council Members

Mr. Chris Bozek - Chair
Managing Director, North America Head of Trade and Global Product Executive
Bank of America Merrill Lynch

Ms. Stacey Facter – Vice-Chair
Executive Vice President Trade Products
Bankers Association for Finance and Trade

Ms. Lauren Wilk – Vice Chair
Director of Trade Facilitation
National Association of Manufacturers

Mr. Sergio Rodriguera – Vice Chair
Chief Strategy Officer
The Credit Junction

Mr. Adam Dener
Managing Principal
Fermat Capital Management

Mr. Karsten Herrmann
Senior VP Political Risk and Trade Credit
Munich Reinsurance of America

Mr. Mark Roberts
Senior Commercial Loan Officer
Alliance Bank of Arizona

Mr. Todd McCracken
President and CEO
National Small Business Association

Mr. Gary Mendell
President
Meridian Finance Group

Mr. Lou Tierno
Vice President Trade Products
Fulton Financial Corporation

Council Members

Mr. Steven Wilburn
Chief Executive Officer
FirmGreen

Mr. Samuel Hodges
Managing Director
Funding Circle

Department of Commerce

Mr. James M. Sullivan
Deputy Assistant Secretary for Services
International Trade Administration

Ms. Tricia VanOrden
Deputy Director
Trade Promotion Coordinating Committee

Mr. Kurt Bersani
Chief Financial Officer and Director of Administration

Mr. Paul Thanos
Director
Office of Finance and Insurance Industries
International Trade Administration

Mr. Michael Fuchs
Team Lead, Trade and Project Finance
Office of Finance and Insurance Industries
International Trade Administration

Ms. Ericka Ukrow
Designated Federal Officer TFAC
Senior International Trade Specialist
Office of Finance and Insurance Industries
International Trade Administration

Mr. Scott Schmith
Senior International Trade Specialist

Office of Finance and Insurance Industries
International Trade Administration

Mr. Chris Barnes
International Trade Intern
Office of Finance and Insurance Industries
International Trade Administration

U.S. Government

Mr. Ryan Caudelle
Deputy Chief of Staff, Office of the Chairman
Export-Import Bank of the United States

Mr. Dennis Chrisbaum
Director, International Trade Finance
U.S. Small Business Administration

Mr. Giuseppe Gramigna
Chief Economist
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Mr. Robert Trojan
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Ms. Diana Rodriguez
Senior Director, International Policy
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Managing Director
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