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Documentary Credit WORLD

In This Issue...

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■ AN ARGUMENT FOR ELIMINATING ACCEPTANCE AND NEGOTIATION CREDITS

From time to time, some LC specialists have suggested that there need not be four types of ways to honor commercial letters of credit under UCP. In her article, "Two Types of Commercial LCs are Enough", Xuehui Wang (Ofei) explains her position why only sight and deferred payment credits are needed. As practice evolves, Wang contends that differences among the four credit types are diminishing such that there are two categories. Left with the choice of credits being available by sight or deferred payment, Wang believes LC practice can become more simplified while still satisfying the needs of beneficiaries.

Next Issue of *DCW* ...

■ **A US Perspective on URDG758 Compared to ISP, UCP, and the NY UCC**

■ ***Fortis Bank v. ADIB* LC Dispute**

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INTERVIEW

DCW INTERVIEW ON THE NEW TRADE RISK ACTIVE CONTROL (TRAC) SYSTEM

Trade Risk Active Control (TRAC) is a new collateral management system for trade developed by Swiss trade finance software vendor, MIT (www.mitsa.ch). To gain an understanding of the system, *DCW* spoke with Paul Cohen Dumani, General Manager of MIT.

Paul Cohen Dumani
GM of MIT

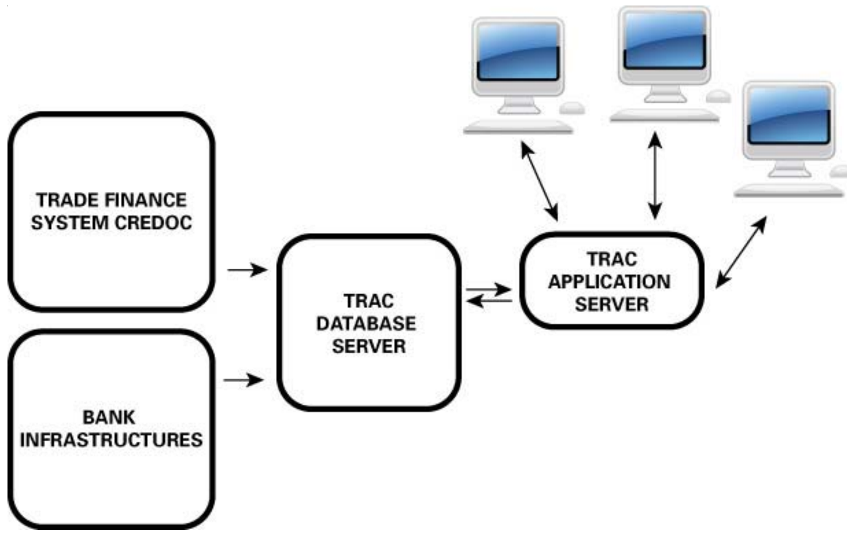
***DCW*:** Banks are justifiably concerned about accurately measuring and accounting for their risk. Was TRAC developed to enhance banks' abilities in this regard and can you give us a brief overview of the system?

Cohen Dumani: TRAC is a customer portfolio management system that enables banks' front-office (relationship managers), middle-office (credit risk managers) and top managers to monitor their risks appropriately. It was designed to replace the frequently-used Excel spreadsheet in the trade commodity finance sector.

***DCW*:** Why do you believe TRAC should be seen as an innovation for commodity financing?

Cohen Dumani: It is true that banks nowadays are more or less well equipped with systems capable of supporting their back-office operations linked to financial instruments such as letters of credit, guarantees, and collections such as our own flagship product CREDOC, but it is not obviously the case for more complex financing, the monitoring of its allocated credit limits, and the management of collateral. In this case, the most frequently-used tool is an Excel spreadsheet.

The spreadsheet offers great flexibility for relationship managers to follow the evolution of their transactions, and establish the global economic position of a



customer at a given time. The position is calculated on the spreadsheet by consolidating data manually coming from heterogeneous sources. The global economic position supports the decision-making process of a relationship manager or a credit comity, when deciding whether or not to finance.

Despite its proven flexibility, a spreadsheet has some limitations. It is not sufficiently secure as far as the reliability of the data presented is concerned. Spreadsheets also typically support the decision-making process for financing amounts up to seven or eight digits.

Therefore, market demand is increasing for innovative dashboard tools that can be easily integrated into a bank's IT infrastructure and are capable of automating the extraction of data coming from various systems in order to present a reliable, real-time view of a customer's global economic position. In this regard, TRAC can be considered as an innovation in the trade finance industry.

***DCW*:** OK, but don't you think standard back-office systems already include notions of limits, risks, and collaterals?

Cohen Dumani: Yes, they already do but bear in mind a trade finance back-office system or a loan system are designed to process, book, and follow up the financial instruments they automate, whether it is letters of credit, guarantees, collections, or loans. You already find notions of risks, limits, and collateral in such systems but only in the framework of one given operation. I will oppose here two notions: Transaction and Operation. A Transaction being made of several operations of purchases and sales that can sometimes be linked to a documentary instrument such as an LC.

Nowadays, banks are engaged in more complicated financing transactions involving many operations of purchases and sales linked to LCs (import or export), open account, or even cash. Therefore, a traditional back-office system often cannot give you the complete view of a more complex financing scheme, especially in terms of monitoring collateral and the different risks involved under one transaction. For this reason, we designed TRAC, which is complementary but autonomous software to our core product, CREDOC.

One must also bear in mind that the job tasks of a traditional back-office trade finance specialist are different from those of a front-office relationship manager. Indeed, the latter needs the appropriate tools to make decisions in terms of financing, while the former needs a tool to book and follow up its documentary business.

***DCW*:** You said TRAC is complementary but autonomous to CREDOC? Can you explain that?

Cohen Dumani: As already mentioned, the goal of TRAC is to calculate the global economic position of a customer at a given time. This can be done by aggregating data coming from a traditional trade finance back-end system such as CREDOC (eg., data on an import LC) and from a core banking system that supplies information on customers' account balances.

The industry of back-end trade finance software is quite mature, so our initial thinking was to design a system that could exchange information with CREDOC as well as with other trade finance software in the market so we could assist banks that already have a back-office system in place other than CREDOC. This gives us different options in the market. We can offer CREDOC without TRAC, TRAC without CREDOC, or both as an integrated solution.

***DCW*:** Do you see major constraints when trying to integrate TRAC with back-office systems of your competitors?

Cohen Dumani: No, provided, of course, our competitors would be ready to cooperate with us (even indirectly) on specific projects at the request of their customers. Furthermore, all trade finance back-end systems are SWIFT-centric because they handle SWIFT trade finance messages.

> ***A major area of concern remains on the lips of bankers and software vendors: "How can we improve risk management?"***

Therefore, most systems share the same set of common fields imposed by SWIFT to ensure straight through processing. This will make things easier for us when we are confronted with uploading data into TRAC from a system other than CREDOC. The data to be uploaded will be quite standard (transaction type, amount, currency, amendment, utilization, payment).

***DCW*:** Do you already come across competition for TRAC?

Cohen Dumani: Not really. We've seen banks very interested in TRAC that have examined whether their own loan systems' providers could cover the missing parts, such as transactional-based financing (multiple purchase and sells) and collateral management that are usually not covered by traditional loan systems. On the other hand, there are many collateral management systems in the market but very few designed specifically for banks' trade commodity finance and structured trade finance activities. So, we believe that with CREDOC and TRAC, we have now a very unique and strong offering.

***DCW*:** Do you think there is a strong demand in the market for a tool such as TRAC?

Cohen Dumani: In today's current crisis climate, a major area of concern remains on the lips of bankers and software vendors: "How can we improve risk management?" And trade finance and commodities financing do not escape from such debate.

Furthermore, Basel II regulations oblige banks to look more in-depth into how they evaluate their risks linked to trade finance, since it will have repercussions on capital requirements for this activity.

For these reasons, and according to our own research, we believe there is a huge demand for tools such as TRAC, because reliance on an Excel spreadsheet increases operational risk and is no longer an acceptable solution for auditors.

***DCW*:** You mentioned Basel II. As bank regulations and requirements are never static, how will TRAC keep up

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changes both at the national and international level to best serve banks?

Cohen Dumani: TRAC has a powerful Business Intelligence engine embedded. So an end-user responsible for supplying data for Basel II calculations, will be able, with all the data at their disposal, to create the necessary reports useful in the frame of Basel II regulations.

With this engine, we are able to create tailor-made statistics and reports that aggregate data both at a national and international level.

***DCW*:** TRAC is a fairly new system. What is you roadmap for the product?

Cohen Dumani: We've been working actively over the past three years on the issue of trade commodity finance automation because customers and prospects were pressing us to do something in this area. At present, we have completed the development and a first release of TRAC is ready to be implemented. As a matter of fact, it will be implemented for testing next month at a bank in Geneva that is very active in trade commodity finance. If all goes well, the bank intends to go live with the system beginning in 2011. ■