

Trade finance and Basel III

*Dr Alexander Ressos, TEP
Attorney-at-Law (Switzerland), Solicitor (Hong Kong),
Solicitor (England & Wales)*

Prudential regulation has made trade finance more expensive for banks. The capital requirements derived from the Basel accords, whose final version has applied in Switzerland since 1 January 2025, treat trade finance exposures under rules that only imperfectly recognise their short duration and their low default rate, so that banks must set aside capital that the profitability of these transactions, with margins of a few tenths of a per cent, barely covers.¹ The registers of the International Chamber of Commerce have for more than ten years documented very low loss rates for documentary credits and transactional financing, an argument that banks and traders put to regulators without obtaining any substantial relief.

For Geneva, this constraint weighs on the financing cluster. The major banks, whose capital is scarce, allocate it to the most profitable activities, and trade finance, which is demanding in terms of capital and compliance, suffers as a result. The cantonal banks and non-bank financiers, which are less constrained or constrained differently, gain from it. Part K described the debate on the capital of the large Swiss bank, whose consequences for Geneva trade finance are one of the points that the umbrella organisations have raised with the Confederation.

1 Notes

1. Basel Committee, press release of 25 October 2011, “Treatment of trade finance under the Basel capital framework”: removal of the one-year maturity floor for certain trade finance instruments under the advanced internal ratings-based approach and of the sovereign floor for certain claims on banks, in order to improve access to trade finance for low-income countries; ICC, “Trade finance resilience and low credit risk persist amid global challenges, confirms ICC” (ICC Trade Register Report 2024): “trade, supply chain and export finance continue to exhibit low risk, with default rates remaining low across all regions and asset classes overall”, on a sample representing nearly a quarter of global trade finance transactions; GTR, Risk 2024, “Credit insurance market braces for Basel 3.1” (loss-given-default floors of 45% for protection provided by insurers). ↩

For general information only. This article does not constitute legal or tax advice, does not replace advice on an individual case and creates no lawyer-client relationship. It reflects the legal position as of September 2026.

Online version: helveticaregister.com/geneva-trade-finance-and-basel-iii