

## Industry standards: the STSA guide and the Wolfsberg principles

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In the absence of a regulatory text, two private standards define good practice for banks that finance Lugano traders. The first is the STSA's best practice guide of October 2021, described in the previous section, which addresses fraud more than money laundering.<sup>1</sup> The second is the Trade Finance Principles of the Wolfsberg Group, the ICC and BAFT, first published in 2011 and amended in 2019. They set out a framework for financial crime risk management in trade finance and contain product appendices on documentary credits, collections, guarantees, open account trade and loans to financial institutions. The principles start from the premise that banks deal with documents and not with the goods, services or performance to which the documents relate. Banks are therefore not equipped to detect every case of over- or underinvoicing. The principles list red flags such as manifestly unusual pricing, transshipment through high-risk jurisdictions, vague descriptions of goods, unexplained intermediaries, multiple invoices for the same shipment and phantom shipments. On dual-use goods they acknowledge that interpretation requires technical knowledge that bank staff cannot be expected to possess.<sup>2</sup>

The Swiss Bankers Association's role in this field is indirect. Its Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence (CDB 20), whose history Chapter D.III traces from the Chiasso scandal of 1977, governs the identification of clients and beneficial owners for all banking relationships, including those with trading companies.<sup>3</sup> No specific guideline of the association on commodity trade finance could be identified for this chapter. Its estimate of the size of the Swiss commodity trade finance market for 2011 has already been mentioned above. Banks that serve Lugano traders therefore combine the general CDB rules with their own internal policies, the STSA guide and the Wolfsberg principles.

## 1 Basel III and the capital cost of trade finance

The capital that a bank must hold against trade finance determines its price. Under the Basel framework, on-balance sheet loans to traders carry the risk weight of the borrower. Off-balance sheet items such as documentary credits and guarantees are converted into credit exposures by a credit conversion factor (CCF). The Basel Committee has long recognized that short-term, self-liquidating trade letters of credit carry less risk than other contingent exposures. In October 2011 it decided to waive the one-year maturity floor for certain trade finance instruments under the advanced internal ratings-based approach. It also waived the sovereign floor for claims on banks in low-income countries, after consultation with the World Bank, the World Trade Organization and the ICC.<sup>4</sup>

Instrument (standardized approach) CCF Short-term self-liquidating trade letters of credit 20 % Transaction-related contingent items (performance bonds, bid bonds, 50 % standbys tied to transactions) Direct credit substitutes (financial guarantees, standbys as financial 100 guarantees) %

The final Basel III package, published by the Basel Committee in December 2017, retained this structure in substance.<sup>5</sup> In the European Union and the United Kingdom, the debate concerned the treatment of transaction-related contingent items. The UK Prudential Regulation Authority proposed to raise the CCF for certain trade-related off-balance sheet items to 50 per cent. In September 2024 it abandoned the proposal after receiving data showing that it was too conservative, in line with the European approach.<sup>6</sup> Switzerland implemented the final Basel III standards on 1 January 2025 through a revised Capital Adequacy Ordinance of the Federal Council and five FINMA ordinances, including a new FINMA Credit Risk Ordinance.<sup>7</sup>

For the Lugano trader, the capital rules have two practical consequences. The first is that a documentary credit costs the bank less capital than a guarantee or an unsecured loan of the same amount, which is reflected in pricing. The second is that the bank's internal rating of the trader drives the price of all other facilities. Under the internal ratings-based approaches used by the large banks, a small trader with thin equity and volatile earnings receives a poor rating. Its unsecured credit is then expensive, while transactional exposures secured by goods and documents are cheaper. The ICC Trade Register, which collects default and loss data from member banks, has consistently shown that trade finance products have low default rates and low losses given default. In its 2025 edition it reported that defaults on export letters of credit were concentrated almost entirely in Russia.<sup>8</sup> The industry uses these data to argue for lower capital charges.

The frauds of 2020 have shown, however, that the gravest risk of trade finance lies in the falsification of the documents on which the security depends, a risk that default statistics do not capture.

## 2 Notes

1. GTR, 3 November 2021 (above). ↩
2. Wolfsberg Group, ICC and BAFT, Trade Finance Principles (2019) (above; copy hosted by the Bank of Russia) ("FIs deal with documents and not with transport, delivery, goods, services, or performance"; "interpretation of dual use requires technical knowledge that staff cannot be expected to possess"). ↩
3. See Chapter D.III. Swiss Bankers Association, Agreement on the Swiss banks' code of conduct with regard to the exercise of due diligence (CDB 20), in force since 1 January 2020. ↩
4. Basel Committee on Banking Supervision, Treatment of trade finance under the Basel capital framework (BCBS 205), October 2011, <https://www.bis.org/publ/bcbs205.pdf>. ↩
5. Basel Committee on Banking Supervision, Basel III: Finalising post-crisis reforms (December 2017), <https://www.bis.org/bcbs/publ/d424.pdf>, paras. 79 (100 % for direct credit substitutes, "including standby letters of credit serving as financial guarantees for loans and securities"), 81 (50 % for "transaction-related contingent items (eg performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions)") and 83 (20 % "to both the issuing and confirming banks of short-term self-liquidating trade letters of credit arising from the movement of goods"). ↩
6. GTR, "UK drops plans to hike capital requirements for trade finance", Global Trade Review, 12 September 2024, <https://www.gtreview.com/news/europe/uk-drops-plans-to-hike-capital-requirements-for-trade-finance/>. ↩
7. FINMA, "Umsetzung von Basel III final: FINMA verabschiedet Verordnungen", press release of 27 March 2024, <https://www.finma.ch/de/news/2024/03/20240327-mm-basel-iii-umsetzung> (entry into force on 1 January 2025; Basel III implemented mainly in the Federal Council's Capital Adequacy Ordinance; five FINMA ordinances, among them the Credit Risk Ordinance, KreV-FINMA). Ordinance of 1 June 2012 on the Capital Adequacy and Risk Diversification of Banks and Securities Firms (Capital Adequacy Ordinance, CAO), SR 952.03, title and date as listed at droit-

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bilingue.ch, <https://www.droit-bilingue.ch/en-de/9/95/index.html>.



8. ICC Academy, "ICC Trade Register 2025", 17 December 2025, <https://academy.iccwbo.org/international-trade/article/icc-trade-register-2025/> (data from 22 member banks). ↩

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