

## **MLT Operational Guidelines**

*Adopted at the Medium/Long Term Committee meeting in Sydney, Australia, 9-10 April 2008*

*Amended by email exchange 3 October 2008*

### **Introduction**

The functions and activities of Berne Union Medium/Long Term Committee Members (referred to below as “Members”) constitute an industry in its own right. Members are unique players in their individual countries and, albeit organised along different institutional settings, maintain a strong link with their governments, which ultimately back Members’ commitments through public capital, state guarantees or in other ways.

In an increasingly integrated market for goods, services and financial transactions, Members are progressively interacting with private players in rendering support, fostering cooperation, working in partnership, and even providing alternative solutions. In doing this, Members apply the most advanced techniques and practices.

Members’ programmes further the expansion of international trade with positive implications for world growth and prosperity. If adequately structured and implemented, they can be instrumental in controlling and mitigating negative social or environmental impacts and avoiding the risk of illicit business practices. It is a goal of the Berne Union, stated in its Statutes, to “work for the international acceptance of sound principles of export credit insurance and the establishment and maintenance of discipline in the terms of credit for international trade”.

Members strive to be cooperative, informative and transparent. Their business involves a wide variety of interested parties and stakeholders: governments and taxpayers in Member countries, who bear the ultimate ownership of export credit programmes; importers and investors in third countries, for whom export credit is an important and often unique source of funding; society at large – in both member and recipient countries - who are keen to see the benefits of trade and growth as broadly distributed as possible; and private players in related industries that interact with Members through their day to day business.

It is an important objective of the Berne Union, as noted in its Statutes, to “provide for the exchange of information, assistance, expertise and advice in relation both to the commercial and political risks involved in export credit insurance, to the political risks involved in foreign investment insurance and to the range of associated matters relating thereto”.

As expressed by their Value Statement, Berne Union Members “are committed to operate in a professional manner that is financially responsible, respectful of the environment and which demonstrates high ethical values - all in the best interest of the long-term success of our industry”.

In the framework set by its Statutes and Value Statement, the Berne Union has identified ten Guiding Principles for the activities of its membership in three areas of business: Short term export credit insurance (ST), medium/long term export credit insurance/lending (MLT), and investment insurance (INV). The ten Guiding Principles have been further developed into operational guidelines for the MLT field, as set out in this paper. The operational guidelines are not legally binding obligations; they reflect and illustrate the behaviours and practices followed by Members pursuant to the Guiding Principles. While the Guiding Principles represent an enduring commitment, the operational guidelines will continue to be monitored, revised, improved and communicated.

## **Guiding Principle 1**

*We conduct our business in a manner that contributes to the stability and expansion of global trade and investment on a sound basis, that is in accordance with applicable laws and relevant international agreements.*

### **MLT operational guidelines**

- Members are respectful of national and international laws and agreements that affect specific elements of their programmes.
- Members adhere to the stipulations of the WTO Agreement on Subsidies and Countervailing Measures which restricts the usage of subsidies in officially supported export credits and credit guarantees.
- Members act within the specific mandate received from their respective governments and under the auspices of their guardian authorities.
- Members from OECD countries follow the disciplines of the OECD Arrangement. The non-OECD Berne Union Members, by their acceptance of the Berne Union General Understanding, are expected to follow the main disciplines of the OECD Arrangement concerning down payments, starting points of credit, lengths of credit, instalments and local costs.

### **Framework**

All Members are bound by the WTO Agreement on Subsidies and Countervailing Measures (ASCM). The general objective of the ASCM is to prevent market distortion and this equally applies to officially supported export credits and credit guarantees. The ASCM makes it a prohibition for agencies running credit guarantee or insurance programmes, to charge premiums which would be inadequate to cover the long term operating costs and losses of the programmes. The ASCM also prohibits official export credits and credit guarantees provided at conditions which would confer a benefit.

The OECD Arrangement on Officially Supported Export Credits (initially known as “Consensus”, today as “Arrangement”) is an agreement subscribed by OECD member countries.

Export credit activities are also regulated by other, more specific, sets of international agreements and legislation, key amongst which are those falling within the realm of State support programmes. A list of the most relevant agreements is provided in Annex 1.

## Guiding Principle 2

*We carefully review and manage the risks we undertake.*

### **MLT operational guidelines**

- Members review and manage risks starting with careful underwriting, using the best available information on the buyers/borrowers/guarantors/countries, and appropriate risk assessment techniques (i.e. scoring and rating systems).
- Members actively monitor and manage risks in their portfolio through increasingly sophisticated monitoring systems and, at times, by means of reinsurance and/or other market protection tools. They may also maintain special reserves to cover potential losses and contingent liabilities.
- Members, through their underwriting policies, aim at attaining sustainable debt and sustainable economic development in borrowing countries.

### **Framework**

Assessment, underwriting and management of risks constitute the core business of Members, who are continuously refining their risk assessment and risk management techniques in all relevant segments: country and political risk, commercial risk, market risk, operational risk, reputational risk, legal and documentary risk.

Members have adjusted to the profound changes in trade and financial markets by moving their focus from underwriting mostly sovereign or bank risks, to underwriting a whole range of counterparty risks. The OECD framework has long provided a useful tool for assessing and classifying country/sovereign risk. As underwriting rapidly shifted to the non-sovereign segment, new sources of information on buyers/debtors and new tools for credit risk assessment, scoring and rating have been and continue to be introduced by Members.

New forms of risks associated with inadequate or failed business processes such as human error, fraud, or inadequate governance, as well as environmental or social impact, corruption, and money laundering, are also being closely scrutinised. These represent reputational risks for Members and can have dire social and economic consequences for the projects and the people affected.

Once underwritten, Members monitor and measure portfolio risks; they also manage the risks actively, whether they remain on their own books or on their government's accounts. Many Members rely upon the use of advanced techniques such as value-at-risk; seek to reinsure their exposure with each other or with re-insurers; swap and buy risk protection through market derivatives; protect their exposure through real (or notional) economic capital and reserves, an approach that is also instrumental to constantly measuring the value of their contingent liability and the associated risks (i.e. potential losses).

## Guiding Principle 3

*We promote export credit and investment insurance terms that reflect sound business practices.*

### **MLT operational guidelines**

- Members apply terms and conditions that reflect best market practices and are conducive to sound underwriting. The Berne Union has defined a set of specific standards as listed in Annex 2.
- Members support credit terms coherent with the economics of the underlying transaction (e.g. quasi-capital and capital goods, complete plants); recognise generally accepted practices; and introduce and use covenants to ensure the enforcement of their rights and conditions.

### **Framework**

The Berne Union has set overarching goals for the whole membership in its Statutes and Value Statement and has defined, in the Guiding Principles, the key elements that constitute sound business practices. Furthermore, the Berne Union has long established, in the General Understanding, specific criteria to guide Members' underwriting. In addition, criteria stemming from other international agreements, notably the OECD Arrangement, are also reflected in underwriting policies of many Members.

Sound underwriting practices for credit terms by Members need to take into account the contract amount, the nature of the goods and the unit value of the goods, as well as conditions normally accepted in the market. The core business of Members lies in the medium or long term financing area -i.e. for quasi-capital and capital goods, complete plants and construction works.

As the business environment evolved over the years and new practices emerged, the content of the General Understanding was reviewed and simplified with a view to retaining those standards that still guide Members' underwriting criteria and are instrumental to sound underwriting. This is especially relevant in relation to the requirement of a down payment and in securing an amortisation schedule in line with the economic life of the financed goods. Other aspects that have become marginal over time have been deleted.

The revised set of underwriting standards that has replaced the parts of the General Understanding related to medium/long term business is contained in Annex 2.

## Guiding Principle 4

*We aim to generate adequate revenues to sustain long-term operations reflective of the risks we undertake.*

### **MLT operational guidelines**

- Members, in accordance with the WTO rules, are committed to run a financially sustainable business.
- Members underwrite sound business with different counterparts, in circumstances where they are versed with the different financial structures that can be engineered in today's market transactions (i.e. presence of collateral and/or other forms of security).
- Members establish premium rates that cover long term operating costs and losses and assure a level playing field in the industry.
- Some Members have introduced increasingly sophisticated pricing systems, including those based on advanced financial concepts such as estimated losses, recoveries given default, and operating costs.

### **Framework**

The aim of the Arrangement on Officially Supported Export Credits (Arrangement) is to foster a level playing field among its participants, enabling national exporters to compete on the quality and price of the goods and services exported rather than on financial terms and conditions of the official support. The goal of a level playing field on the pricing of official support is achieved through the classification of country risk and the setting of a Minimum Premium Rate (MPR) based on a sovereign obligor's risk. The MPR constitutes a floor; additional premium for buyer risks higher than the sovereign risk is applied to reflect the ultimate risk. The level of such additional premium remains at the discretion of each Member.

In order to price buyer risks, some Members that rely on internal pricing systems link them to market references (spreads, credit default swaps, etc), best practices and advanced techniques (based on expected losses, recovery values, etc) thus taking into account the various degree of risks embedded in different transactions.

## Guiding Principle 5

*We manage claims and recoveries in a professional manner, while at all times recognising the insureds' and obligors' rights.*

### **MLT operational guidelines**

- Members maintain open relations with their policyholders on claim and recovery matters and meet all justified obligations in a prompt and satisfactory manner.
- Members, subject to any confidentiality restrictions, share information with each other on exposure, payment delays, defaults, and recovery plans. They coordinate their recovery efforts through institutional settings like the Paris Club or on specific transactions.
- Members cooperate in setting up platforms for sharing information, experiences and best practices in claims handling and recoveries in the commercial area, thus striving to create a new framework for non-sovereign defaults.

### **Framework**

The Berne Union has over the years developed close cooperation on sharing information regarding delayed payments, defaults, claims paid and recoveries, and has established an early warning system. Recoveries in the case of sovereign debt are carried out largely in the context of the Paris Club, which has proven to be a very effective forum, where Members participate alongside their national authorities. Members, on occasions, benefited from their Berne Union membership which better protected them and their clients from potential default.

Claim and recovery matters are not specifically regulated by international laws or agreements. Claim payments follow the application of rules defined by individual Members. These rules are set in accordance with the conditions of the guarantee/insurance policies of each respective Member and are aimed at, amongst other objectives, to ensure timely and adequate indemnification of the insured parties. In their recovery activities, Members act often on behalf of policyholders, in circumstances where the latter have retained an uncovered portion of the risk, thus providing an additional benefit to such policyholders. Members strive to communicate openly with policyholders in order to secure fair, quick and diligent processing of any claim presented.

Subject to any confidentiality restrictions, Members share experience, and promote cooperation and new approaches in handling recoveries with a view to being both expeditious and cost effective in their actions, while aiming to secure the best result possible. In recovery situations Members are aware of the different permutations that might arise in a default scenario such as the presence and ranking of various creditors; or international efforts to tackle debt issues, and endeavour to act in a manner that is both protective of their own rights but at the same time acknowledges the need to coordinate with other parties.

## Guiding Principle 6

*We are sensitive about environmental issues and take such issues into account in the conduct of our business.*

### **MLT operational guidelines**

- Members encourage preventing and/or mitigating adverse environmental or social impacts from their projects through enhanced assessment of social and environmental issues and follow up through an appropriate monitoring process.
- Members promote knowledge transfer, learning and best practice through cooperation and learning on broader environmental policy application and specific methodologies.
- Members foster transparency, consistency and responsibility in decision-making, by encouraging disclosure of relevant environmental information (subject to any confidentiality restrictions that may apply).
- Members from OECD countries apply the guidelines and criteria defined by the OECD Common Approaches on Environment. Non-OECD Members strive to follow the same best practices.

### **Framework**

International agreements set the best practices for the management of environmental issues in MLT export credit business. These include:

*Common Approaches:* The OECD Council formally adopted the recommendation “Common Approaches (CA) on Environment and Officially Supported Export Credits” in 2003 and revised and updated it in June 2007. The Common Approaches are applied by the 29 Members of the OECD Export Credit Group and recognised as representing relevant best practices. Their first implementation of the CA dates back to 2001. Currently the CA applies to all transactions with a repayment term of 2 years or more and focuses on those transactions where a Member’s share is above 10 million SDR, although many Members also apply the CA for other transactions.

*Equator Principles:* Launched in 2003, the Equator Principles have been adopted voluntarily by over 40 financial institutions in the private and public sectors, and were revised in 2006. The Equator Principles apply to project finance transactions with a total project capital cost of 10 million US dollars or more.

Both the Common Approaches and the Equator Principles make reference to and require the application of international standards. The CA are applied by Members that are part of the OECD, while non-OECD Members, recognising the CA as a set of relevant best practices, acknowledge the need to move in the same direction in due course.

## Guiding Principle 7

*We support international efforts to combat corruption and money laundering.*

### **MLT operational guidelines**

- Members conduct their business in an ethical manner and in a way that is intended to deter and discourage unlawful behaviour. They require clients seeking their support to comply with all applicable international and/or national regulations that might be instrumental in reducing or eliminating corrupt practices or money laundering.
- Members are strengthening their efforts and are implementing additional measures to combat bribery of foreign public officials in transactions benefiting from official export credit support.

### **Framework**

The main international agreements regulating corruption matters are the UN Convention against Corruption, the OECD Convention on Combating Bribery, and the OECD Recommendation on Bribery that has come into effect at the beginning of 2007, and whose major aim is to raise awareness in combating bribery in international business transactions. In each country, dedicated institutions in accordance with national legislation are active in implementing/pursuing anti-money laundering policies. Specific modalities and efforts depend on national laws and regulations and are applied in different ways depending on the nature of the various Members (e.g. banks or companies).

Efforts in this area require that Members collaborate in seeking the required pertinent information when handling a transaction, and that they commit to inform law enforcement authorities whenever there is credible evidence that bribery was involved in the awarding of the export contract. This might entail that exporters and, where appropriate, applicants: (i) disclose whether they, or anyone acting on their behalf in connection with the transaction, have been convicted in the last 5 years or are currently under charge in a national court for violation of laws against bribing foreign public officials of any country; and (ii) upon demand, provide the identity of persons acting on their behalf and the amount and purpose of commissions and fees paid or to be paid to such persons.

Enhanced due diligence may be necessary when (i) the exporter and, where appropriate, applicant appear on the publicly available debarment list of one of the specific international financial institutions mentioned in the OECD Recommendation; (ii) the Member is aware that the exporter or applicant, as the case may be, is currently under charge in a national court, or within the last 5 years has been convicted, for violation of laws against bribing foreign public officials; or (iii) the Member has reason to believe that bribery may be involved in the transaction. In case of conviction for violations of laws against bribing foreign public officials, it should be verified that the exporter and, where appropriate, the applicant have taken internal corrective and preventative measures before further export credit support can be provided.

## Guiding Principle 8

*We promote best practices through exchange of information on our activities, policies and procedures, and through the development of relevant agreements and standards, where these are deemed necessary to govern the provision of export credit and investment insurance.*

### **MLT operational guidelines**

- Members promote the development and implementation of best practices in the field of MLT export credit insurance in several ways which support and reinforce each other as set out under each respective Guiding Principle.
- Modalities for promoting best practices include:
  - (i) holding meetings for Members to explore and exchange information, experiences and views on the full range of professional issues in the business field and establishing an Intranet for the same purposes;
  - (ii) developing agreements and standards such as the Value Statement, the Guiding Principles and the specific MLT Guiding Principles and reviewing their application and validity over time;
  - (iii) giving appropriate technical input and advice to regulatory authorities exercising their role in the field of export credit insurance.

### **Framework**

The practice of the exchange of information has been built up over many years. In the last few years, the Intranet has been established as a main tool for these exchanges. In addition, meetings – general or specialised – provide important forums for face-to-face exchanges between Berne Union Members.

Similarly, the history of developing agreements and standards goes back many years. The General Understanding was first established in the 1970s and subsequently amended and expanded several times. The overarching Value Statement was crafted and adopted in 2004, followed in 2006 by the more concrete Guiding Principles in which 10 main Principles are defined. These three documents apply to all Berne Union Members, whether public or private, whether engaged in short or medium/long term export credit insurance or lending or in investment insurance. In addition, when adopting the Guiding Principles for the Berne Union as a whole, it was also agreed to develop specific operational guidelines within each of the business areas – short term export credit insurance (ST), medium/long term export credit insurance/lending (MLT), and investment insurance (INV) – thus replacing the somewhat outdated General Understanding.

Input and advice to other institutions likewise started several decades ago. Important parts of what later became the OECD Arrangement originated from the Berne Union General Understanding. Today the Berne Union strives to maintain and further develop its close relations with those institutions which are relevant for all Members or a large group of Members, e.g. the WTO, the OECD as well as regional institutions such as the EU.

## Guiding Principle 9

*We are committed to furthering transparency amongst members and in the reporting of our overall business activities, reflective of international practices and respectful of the confidentiality of third party information.*

### MLT operational guidelines

- Members, subject to any confidentiality restrictions, provide information as agreed between them, taking all reasonable steps to ensure that all information given is truthful and complete and supplied in a timely manner.
- Members respect the confidentiality of information and, subject to their obligations at law, should not divulge it outside the Berne Union without specific prior approval from the Member(s) who provided the information. As a matter of principle, only Members who provide information may have access to corresponding information from other Members.
- All information exchanged is used by Members strictly in the pursuit of their activities.
- Members undertake, individually as well as collectively through the Berne Union, to provide information externally to the extent reasonably possible taking into account obligations of confidentiality. As a basic principle, the Berne Union and individual Members may only publicise information on an aggregated level, i.e. not detailing data for individual Members.

### Framework

The open and active exchange of information lies at the very heart of the Berne Union. It is one of the main purposes of the Union, as set out in the Statutes, Article 2.01: "The purposes of the Union shall be ... (iii) to provide for the exchange of information, assistance, expertise and advice in relation both to the commercial and political risks involved in export credit insurance, to the political risks involved in foreign investment insurance and to the range of associated matters relating thereto." Members' obligations are noted in Article 3.01: "With a view to achieving the aims set out in Article 2 the Members will ... (i) exchange information and furnish the Union with the information necessary for the accomplishment of its tasks" and Article 3.02: "The Members agree on their honour not to conceal any material fact nor to communicate any information likely to mislead other Members." Further, the requirement of confidentiality is spelled out in Article 3.03: "The Members also agree to respect and maintain the confidentiality of information received from the Secretary-General and Secretariat, from other Members and during Meetings and, in particular, not to disclose this in any unauthorised way to third parties, subject to any Code of Conduct or Disclosure as may be in force." and Article 3.04: "The General Meeting shall decide the action to be taken against any Member who breaches the terms of Article 3.03, taking account of the nature of the breach and how often it has happened."

The exchange of information in the Berne Union serves several purposes: (i) developing best practices for the MLT export credit insurance industry; (ii) monitoring the application and validity over time of best practices, standards, agreements and/or rules; (iii) informing of Members' overall business trends and new developments; (iv) broadening Members' sphere of experience, identifying Members who have special knowledge about specific markets or obligors; (v) providing early warning on problem cases; and (vi) pooling information for external usage. While in the past information exchanges mainly aimed at serving Members themselves, more emphasis has been given in recent years on raising the profile of the Berne Union vis-à-vis the outside community.

Information exchanged within the Berne Union consists of (i) underwriting information; (ii) business data reporting; (iii) contributions to Berne Union meetings; and (iv) Member scheme and contact details. It is considered essential that Members make full use of these opportunities. In particular, every Member's full cooperation is needed to ensure that all information available on the Intranet is correct and updated, thus providing Members with information which is of high quality and adds real value to Members' work.

## Guiding Principle 10

*We encourage cooperation and partnerships with commercial, bilateral, multilateral, and other organisations involved in export trade and investment business.*

### **MLT operational guidelines**

- Members work towards maintaining constructive relations with stakeholders and seek to enter into discussion or cooperation with other parties among the various stakeholder groups.
- Members look towards market players, IFIs and other private and public organisations as partners in their activities and strive to develop – individually and collectively, for specific transactions or more broadly – a framework for enhanced cooperation.
- Members recognise that the need for partnerships becomes even more crucial at times when the global economy is facing difficulties and coordinated efforts are more valuable.

### **Framework**

The Berne Union and its Members work towards maintaining constructive relations with stakeholders. They acknowledge the fact that in many areas Members' programmes are unrivalled and need to be made better known to the public. In this respect they also work actively to be more visible and open vis-à-vis stakeholders and the general public. In light of this, the availability and quality of statistics and other information on Berne Union Members' activities is of great importance.

The stakeholders of the BU Members include the following:

- Governments/ministries;
- Commercial banks and exporting companies;
- Non-Berne Union private insurance companies;
- Academic and non profit institutions, NGOs;
- Institutional investors;
- Multilateral organisations, e.g. WTO, OECD;
- IFIs: IMF, the World Bank, regional development banks;
- Non-Berne Union Export Credit Agencies;
- Industry organisations such as ICISA and IIF;
- The Berne Union Prague Club

## International Agreements Affecting Export Credits

The following list of international agreement affecting export credits is provided for reference purposes. Not all agreements listed below apply to the same group of Members, as some are general while others apply to sub-groups of Members (e.g. OECD, EU).

1. UN Security Council Resolutions and other UN based Resolutions
  - UN Resolutions that may directly affect country cover policies of the ECAs
2. United Nations Convention against Corruption
  - <http://www.unodc.org/unodc/en/treaties/CAC/index.html>
3. WTO - Agreement on Subsidies and Countervailing Measures & Illustrative List of Export Subsidies, Items j) & k)
  - Definitions of illegal export subsidies
  - Self-sustainability requirement for export credit guarantee and insurance programmes
  - "Safe haven" application of the Arrangement
  - [http://www.wto.org/english/docs\\_e/legal\\_e/24-scm.pdf](http://www.wto.org/english/docs_e/legal_e/24-scm.pdf)
4. OECD Arrangement on Officially Supported Export Credits
  - Arrangement provides a framework for the orderly use of officially supported export credits with a repayment term of two years or more
  - Main aspects covered:
    - minimum down payment
    - maximum repayment terms
    - repayment schedule of principal and interest
    - provisions for CIRR
    - minimum premium rates based on country risk classification
    - tied aid
    - provisions for exchange of information
    - sector understandings for ships, nuclear power plants, civil aircraft and renewable energies and water projects
    - terms and conditions for project finance transactions
  - [http://webdomino1.oecd.org/olis/2005doc.nsf/Linkto/td-pg\(2005\)38-final](http://webdomino1.oecd.org/olis/2005doc.nsf/Linkto/td-pg(2005)38-final)
5. 2007 OECD Revised Council Recommendation on Common Approaches on the Environment and Officially Supported Export Credits
  - Projects supported are reviewed for their environmental impacts and benchmarked against international standards
  - [http://www.olis.oecd.org/olis/2007doc.nsf/linkto/tad-ecg\(2007\)9](http://www.olis.oecd.org/olis/2007doc.nsf/linkto/tad-ecg(2007)9)
6. 2006 OECD Recommendation on Bribery and Officially Supported Export Credits
  - Anti-bribery policy for transactions benefiting from official support.
  - [http://webdomino1.oecd.org/olis/2006doc.nsf/Linkto/td-ecg\(2006\)24](http://webdomino1.oecd.org/olis/2006doc.nsf/Linkto/td-ecg(2006)24)
7. OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions
8. OECD Guidelines for Multilateral Enterprises
  - [http://www.oecd.org/document/28/0,3343,en\\_2649\\_34889\\_2397532\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/28/0,3343,en_2649_34889_2397532_1_1_1_1,00.html)

9. OECD Export Credit Group's Statement of Principles: Official Export Credits Support to Heavily Indebted Poor Countries (HIPCs) and Countries That Are Only Eligible for International Development Association Funds (IDA-Only Countries)
  - The purpose of the Statement is to support the HIPC Initiative to ensure that official export credits to HIPCs and IDA-only countries are not provided for unproductive purposes.
  - [http://www.oecd.org/document/27/0,3343,en\\_2649\\_34179\\_2675739\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/27/0,3343,en_2649_34179_2675739_1_1_1_1,00.html)
10. OECD Principles and Guidelines to Promote Sustainable Lending Practices in the Provision of Official Export Credits to Low-Income Countries
11. 2001/2006 OECD/ DAC Recommendation on untying official development assistance to the least developed countries
  - Aid to the Least Developed Countries should not be tied to exports
  - [http://webdomino1.oecd.org/horizontal/oecdacts.nsf/linkto/DCD-DAC\(2001\)12](http://webdomino1.oecd.org/horizontal/oecdacts.nsf/linkto/DCD-DAC(2001)12)
12. EU MLT Directive (Council Directive 98/29/EC of 7 May 1998 on harmonisation of the main provisions concerning export credit insurance for transactions with medium and long-term cover)
  - The main provisions include scope of cover – causes of loss and exclusion of liability, indemnification of claims, principles for setting premium as well as country cover policy; the directive sets notification and information exchange requirements
  - [http://ec.europa.eu/comm/trade/issues/sectoral/export\\_cred/index\\_en.htm](http://ec.europa.eu/comm/trade/issues/sectoral/export_cred/index_en.htm)  
(general link to the official text in the Official Journal as well as other EU information on export credits)
13. EU ST Communication (Communication of the Commission to the Member States pursuant to Article 93 (1) of the EC Treaty applying Articles 92 and 93 of the Treaty to short-term export-credit insurance 97/C 281/03)
  - Official ECAs shall not cover marketable risks, which at the moment are defined as commercial and political risks on public and non-public debtors in the EU, Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland and USA with a risk period (manufacturing period plus credit period) of less than two years
  - [http://ec.europa.eu/comm/trade/issues/sectoral/export\\_cred/index\\_en.htm](http://ec.europa.eu/comm/trade/issues/sectoral/export_cred/index_en.htm)  
(general link to the official text in the Official Journal as well as other EU information on export credits)
14. EU Commission Notice on the application of Articles 87 and 88 of the EC Treaty to State aid in the form of guarantees
  - The notice outlines the Commission's approach to state aid in form of guarantees
  - [http://ec.europa.eu/comm/competition/state\\_aid/studies\\_reports/vademecum\\_on\\_rules\\_2007\\_en.pdf](http://ec.europa.eu/comm/competition/state_aid/studies_reports/vademecum_on_rules_2007_en.pdf), or
  - Official Journal C 071 of 11 March 2000 (2000/C 71/07)
15. EU Council Regulations
  - EU Council Regulations may directly affect country cover policies of the ECAs
  - [http://ec.europa.eu/comm/competition/state\\_aid/overview/index\\_en.cfm](http://ec.europa.eu/comm/competition/state_aid/overview/index_en.cfm).

## MLT Members' Key Underwriting Standards

### Starting Point of Credit

For *quasi-capital goods*, defined as: Machinery or equipment, generally of relatively low unit value, intended to be used in an industrial process or for productive or commercial use.

Not later than the actual date of acceptance of the goods or the weighted mean date of acceptance of the goods by the buyer or, if the exporter has responsibilities for commissioning, then the latest starting point is at commissioning or, for services, the date of the submission of the invoices to the client or acceptance of service by the client. There could be a prolonged period over which services are rendered, during which invoices could be submitted or acceptance take place at regular intervals. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point should be commissioning.

For *capital goods*, defined as: Machinery or equipment, generally of relatively high unit value, intended to be used in an industrial process or for productive or commercial use.

1. In the case of a contract for the sale of capital goods consisting of individual items usable in themselves, the latest starting point is the actual date when the buyer takes physical possession of the goods, or the weighted mean date when the buyer takes physical possession of the goods.
2. In the case of a contract for the sale of capital equipment for complete plant or factories where the supplier has no responsibility for commissioning, the latest starting point is the date when the buyer is to take physical possession of the entire equipment (excluding spare parts) supplied under the contract.
3. If the exporter has responsibility for commissioning, then the latest starting point is at commissioning.
4. For services, the date of the submission of the invoices to the client or acceptance of service by the client. There could be a prolonged period over which services are rendered, during which invoices could be submitted or acceptance take place at regular intervals. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point should be commissioning.

For *complete plants*, defined as: Complete productive units of high value requiring extensive use of capital goods.

1. In the case of a contract for the sale of capital equipment for complete plant or factories where the supplier has no responsibility for commissioning, the starting point is the date when the buyer is to take physical possession of the entire equipment (excluding spare parts) supplied under the contract.
2. In the case of construction contracts where the contractor has no responsibility for commissioning, the starting point is the date when construction has been completed.
3. In the case of any contract where the supplier or contractor has a contractual responsibility for commissioning, the latest starting point is the date when he has completed installation or construction and preliminary tests to ensure that it is ready for operation. This applies whether or not it is handed over to the buyer at that time in accordance with the terms of the contract and irrespective of any continuing commitment which the supplier or contractor may have, e.g. for guaranteeing its effective functioning or for training local personnel.

4. In the case of paragraphs 1, 2, and 3 above where the contract involves the separate execution of individual parts of a project, the latest date of the starting point is the date of the starting point for each separate part, or the mean date of those starting points or, where the supplier has a contract, not for the whole project but for an essential part of it, the starting point may be that appropriate to the project as a whole.

5. For services, the date of the submission of the invoices to the client or acceptance of service by the client. There could be a prolonged period over which services are rendered, during which invoices could be submitted at regular intervals. In the case of a contract for the supply of services where the supplier has responsibility for commissioning, the latest starting point should be commissioning.

### **Credit Terms**

For credits of 2 years or longer:

- A down payment of at least 15% of the contract value should be stipulated, payable before or at the starting point of credit.
- Principal shall normally be repaid in equal and regular instalments not less frequently than every 6 months, plus accrued interest on the outstanding balance.
- Length of credit: between 2 and 10 years, depending on the contract amount, the unit value, the type of goods and normal trade practice.

The following terms may serve as a guideline:

Up to 3 years credit:	minimum contract value of USD 100,000 excluding interest
Up to 4 years credit:	minimum contract value of USD 200,000 excluding interest
Up to 5 years credit:	minimum contract value of USD 400,000 excluding interest

### **Refinancing**

In the case of refinancing the maximum credit terms from the starting point of credit still apply, except in the case that the refinancing is agreed to avoid or minimise a loss.

### **Interest**

Interest charged on credit should at least cover the funding costs of the lender.

### **Lines of Credit**

Lines of credit should not lead to longer credit terms than if a transaction were financed without a line of credit.

### **Financial Leasing**

All underwriting rules also apply to lease transactions. However, it is permitted to have equal instalments of principal and interest combined in lease transactions.

### **Arrangement**

Where the Arrangement on Officially Supported Export Credits (Arrangement), including the complementary sector understandings, is more flexible than the Guiding Principles, Arrangement rules or, where applicable, sector understanding rules may be applied.