

TFAC RECOMMENDATIONS SUMMARY FIRST CHARTER TERM (2016 – 2018)

TFAC Recommendation 1: Tax Repatriation Waiver Program

This recommendation calls on the Treasury Department to consider a tax repatriation waiver program for offshore earnings, provided that the tax waiver beneficiary agrees to lend the repatriated amount over a period of time to SMEs, particularly those that export, as short-term loans.

Given the limited finance options currently available to SMEs from banks and private capital, the recommendation's objective is to develop sizable pools of private capital (to bridge the identified gap) to be allocated in the real economy, while minimizing government resources. There is, reportedly, a pool of some \$2.4 trillion in earnings presently held offshore by the top 75 U.S. corporations.

The TFAC's recommendation also suggests limitations on any such repatriation program, specifically limits on stock and debt repurchases, to prevent the type of unintended outcomes experienced during the 2004 tax holiday (in that instance, rather than use the money for hiring and capital purchases, companies plowed the cash into share buybacks and dividends, and many of the biggest beneficiaries actually cut American jobs in the years after the repatriation).

- Secretary Ross elected not to transmit those recommendations to the Treasury Secretary for consideration in the tax reform discussions, as requested by the TFAC, to avoid introducing additional complexity into those negotiations (that could have contributed to further budget deficits).
- Secretary Ross also communicated to DAS Sullivan that the TFAC's tax repatriation waiver proposal could be resubmitted for consideration if it were to include greater detail regarding amounts, structure, and detailed effects on the economy.

TFAC Recommendation 2: Lending Incentives to Investment Management Firms

The recommendation calls for the establishment of a government program to provide one-time financial incentives to investment management firms for the development of credit investment products for exporting SMEs.¹ In addition to creating new products, the incentives would fund firms' efforts to arrange investors and establish the necessary infrastructure to originate and support loans to SMEs. The incentives would be limited to investment management firms, rather than alternative lenders or other new entrants to the market, because such firms are regulated.

TFAC Recommendation 3: Incentivize Private Sector Lending to Stimulate Exports (expanded)

¹ Note that this recommendation can be considered independently or as a subsequent step of the first recommendation.

The TFAC recommends the establishment of a USG program to provide one-time financial incentives to investment management firms for the development of credit investment products for exporting SMEs. In addition to encouraging the creation of new products, the incentives would fund firms' efforts to coordinate investors and establish the necessary infrastructure for originating and supporting loans to SMEs.

TFAC Recommendation 4: Standardize Data to Facilitate Export Credit

The TFAC recommends that the Department lead the development and implementation of a USG-wide standardized data repository (GDR) and reporting regime for corporate identities and their financial and business information. Both SMEs and finance providers encounter administrative and financial burdens in collecting and reporting such data, which is critical to risk analysis in SME lending. The proposed GDR would facilitate access to this information, with the aim of increasing the appetite for lending to SME exporters.

The TFAC further recommends identifying a Commerce unit with significant SME engagement to pilot the design of the data repository framework. The Council regards USG leadership as essential to ensuring the project's adoption and commercial viability. Among other things, the TFAC believes that privacy and national security concerns about aggregating financial data would be mitigated by USG engagement since the federal government already requires such disclosures in other contexts.

TFAC Recommendation 5: Improve Education about Trade Finance

The TFAC recommends a strategy to better educate U.S. Export Assistance Center (USEAC) specialists about trade finance. USEACs are ITA Commercial Service offices located in more than 100 U.S. cities that provide counselling and products and services to assist U.S. SMEs in exporting their goods and services. Specifically, the strategy highlights the need for USEACs to: (a) identify and address proactively (and as soon as possible) their clients' specific financing needs, and (b) connect these clients to prospective local financial service providers.

In support of the proposed strategy, the TFAC developed a "decision tree" tool to better understand the different USG-backed trade credit programs and commercially available alternatives. The tool could be implemented via the *International Blueprint Program*, a client engagement tool used by Commercial Service field offices.

In addition, the TFAC recommends greater USEAC collaboration with private sector organizations to develop better referral networks at the local level. Over the longer term, such collaboration could focus on developing a digital version of the decision tree tool, with web and/or mobile applications capable of matching clients with various sources of support.

TFAC Recommendation 6: Develop Data on the Utilization of Trade Credit Insurance

The TFAC recommends that the Department examine the current uses of credit insurance by SME exporters to help guide its programmatic actions in this area. The TFAC has advised that credit insurance plays an important role in facilitating trade finance (and, by extension, export

growth). The acute lack of understanding of credit insurance products (and factors like political and country risk) is limiting SMEs from exploiting this tool to expand to foreign markets.

To help obtain greater insights into the use of credit insurance, the TFAC proposes that the U.S. Census Bureau and the U.S. Bureau of Economic Analysis expand their existing surveys to capture such information.

TFAC Recommendation 7: Reforms at the Small Business Administration to Enhance Export Financing Programs and Capacity

The recommendation advocates for Commerce to support implementation of key changes to the operations of the SBA Office of International Trade (OIT), whose mandate is to expand export training, promote international sales opportunities abroad, and increase trade finance support for small businesses. Specifically, the Council suggests that OIT obtains full authority to originate and provide capital for export financing as opposed to the current structure in which its trade finance products are managed under its domestic loan product department and, therefore, international market conditions and risk mitigation techniques may not be properly managed. The TFAC also supports a reform of SBA export finance lending rules for exporting to (which currently inhibit export financing offerings for firms that are inherently riskier, such as firms in industries characterized by greater technical or market uncertainty). This would facilitate the extension of credit for technology-based firms, considered exports of high demand.

TFAC Recommendation 8: Public-Private Sector Reinsurance Programs to Increase Credit

To help increase public-sector risk capacity and encourage use of private sector capital, the TFAC recommends that Commerce and other relevant agencies (a) evaluate existing public-sector export finance and insurance programs (such as those offered by EXIM and SBA), and (b) assess the feasibility and cost of transferring the risk from such programs to private-sector third party reinsurers.

TFAC Recommendation 9: Integrate Trade Finance into the Annual Small Business Credit Survey by the Federal Reserve Board to Promote Data-Driven Policy Decisions

To provide more effective and targeted statistical support for policy decisions, the TFAC recommends that Commerce collaborate with the Federal Reserve Board to include in future iterations of its Annual Small Business Credit Survey a specific module regarding access to credit for small business exporters. The Survey is one of the main USG resources for understanding the credit and capital access for small businesses throughout the United States.

The Council further recommends that Commerce coordinate directly with the TFAC on (a) developing the Survey questions, and (b) leveraging its USEAC network to increase the number of Survey participants.

TFAC Recommendation 10: EXIM Board and Effective Utilization of its Programs to Support U.S. Exporters' Competitiveness

To help shape EXIM's future policies, the TFAC recommends that the Secretary, in his role as an *ex-officio* member of EXIM's board, work alongside Acting EXIM Chair, Jeffrey Gerrish. In addition, the Council suggests that Commerce take an active role in coordinating the export and trade related activities of USG agencies.

Finally, in view of the continuing lack of a quorum on EXIM's board of directors, the TFAC recommends that the Secretary and EXIM evaluate forming a board quorum that would consist of Secretary Ross, USTR Robert Lighthizer, and Deputy USTR Jeffrey Gerrish. The Council contends that, together, they could review and approve significant export transactions until a permanent board quorum is restored.