

6 April 2005

Tel ext 7376

ECGD PILOT TRADING FUND

I wrote to you on 1 July 2004 to explain the decision to establish ECGD as a Statutory Trading Fund starting in April 2007. I am writing now to tell you about the arrangements we have agreed with the Treasury to operate as a Pilot Trading Fund from today, so that we might test our arrangements for operating within the Trading Fund's financial framework.

The key features are:

- **Greater Operational Autonomy** - From today, ECGD has greater freedom to make cover and pricing decisions. This should translate into speedier decision-making when you come to us with prospective business. Our revised Standing Consent from HM Treasury will reflect this autonomy and the Treasury's more strategic role.
- **Products and Domain of Operations Unchanged** – We are able to offer our current range of products across an unchanged geographical domain of markets.
- **New Premium Rates Within the Context of an Unchanged Risk-Reward Balance** – New premium rates will apply across our full range of markets and risk types. The changes overall are not significant and there has been no across the board increase in order to remunerate ECGD's capital. There has been a reduction in the number of markets where ECGD's political risk premium rates are in excess of OECD Benchmark levels. Rates for sub-investment grade corporate risks have risen compared with those previously advertised if not with those actually applied. All of the changes are a consequence of better matching

premium to risk and not the move to a Pilot Trading Fund regime. The new standard rates are available on the Web Calculator at:
http://www.ecgd.gov.uk/index/pc_home.htm.

- **Continuation of FREF** – A new scheme of ECGD support for fixed rate export finance (FREF 2005), was introduced on 1 April 2005 – a development I previewed when I wrote to you on 4 December last year. In that letter, I set out the effect which the introduction of the revised FREF Scheme would have on any holds, options or arrangements in respect of interest rates which are given, or described, in any letters which you may have received from ECGD. The foreign currency thresholds for the scheme are now available at:
http://www.ecgd.gov.uk/index/cir_cc/cir_iirh.htm#Indication-Interest.
- **Earning an Affordable Return on Capital** – As announced last July, ECGD will be only be required to earn an affordable rate of return on capital employed in the business, rather than a “commercial rate”. This will be monitored by the Shareholder Executive, now part of the DTI. This is an important element of the financial discipline applied to all Trading Funds.

Our aim is to improve the quality of service to you and all our customers. Our premiums have to be consistent with meeting the financial objectives we have been set by Ministers. Reductions in premiums, within an unchanged risk environment, depend on our achieving significant reductions in our costs. We intend to begin cost reductions in the course of this Financial Year with the benefits feeding through progressively in the run up to anticipated full Trading Fund status in two years' time.

We look forward to explaining to you these developments in more detail at our Customer Seminar scheduled for 23 May, invitations for which are being despatched now, when Graham Pimlott, Patrick Crawford and I will be available to answer your questions.

Yours Sincerely



JOHN WEISS
Deputy Chief Executive