

CIRCOLARE INFORMATIVA 17/09

Milano, 15 maggio 2009

OGGETTO: EU Forum for the factoring and commercial finance industry (EUF)

Cordiali saluti

 Il Segretario Generale
 Prof. Alessandro Carretta

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Come già segnalato in Fact&news e comunicato nella nostra Assemblea annuale del 18 settembre 2008, la Vostra Associazione ha promosso, unitamente ad altre importanti associazioni nazionali ed internazionali del mercato del factoring, l'avvio dell'EU Forum for the factoring and commercial finance industry (EUF).

Si tratta di una importante iniziativa, che intende rappresentare l'industria europea del factoring presso l'Unione europea e gli altri organismi internazionali, quali Leaseurope, Federazione Bancaria Europea, etc.; contribuire alla armonizzazione dell'ambiente legale, fiscale e regolamentare all'interno dell'Unione; diffondere la conoscenza delle caratteristiche e dei vantaggi del factoring e delle altre forme di supporto finanziario e gestionale dei crediti e debiti di fornitura delle imprese pubbliche e private.

Il Forum ha sede a Bruxelles e raggruppa attualmente le seguenti associazioni:

The Asset Based Finance Association (ABFA)	Regno Unito e Irlanda
Asociacion Española de Factoring (AEF)	Spagna
Associazione Italiana per il Factoring (ASSIFACT)	Italia
Deutscher Factoring-Verband (DFV)	Germania
Association Française des Sociétés financières (ASF)	Francia
Polski Związek Faktorów (PZF)	Polonia

nonché le due catene internazionali:

Factors Chain International (FCI)
International Factors Group (IFG)

Assifact è membro fondatore del Forum ed è presente nel Comitato esecutivo con il dott. Rony Hamaui, vice Presidente di Assifact (membro supplente il dott. Diego Tavecchia di Assifact).

Il Forum dispone di un proprio budget annuale, alimentato dai contributi associativi versati dalle Associazioni nazionali ed internazionali aderenti, sulla base della numerosità dei propri membri.

A breve Vi trasmetteremo i documenti ufficiali della costituzione del Forum, nonché un primo resoconto delle attività svolte.

Per ulteriori informazioni contattare il dott. Diego Tavecchia presso gli uffici dell'Associazione (tel. 0276020127, diego.tavecchia@assifact.it).





EU Forum for the Factoring and Commercial Finance Industry



... ONE MISSION, ONE PLATFORM, ONE VOICE





The **EU Forum** is the Representative Body for the **Factoring and Commercial Finance Industry** in the EU. It is composed of national and international industry associations that are active in the EU.

The **EU Forum** seeks to engage with Government and legislators to enhance the availability of finance to business, with a particular emphasis on the SME community. The **EU Forum**, acts as a platform between the factoring and commercial finance industry and key legislative decision makers across Europe bringing together national experts to speak with **one voice**.

The **EU Forum** offers itself as a source of reference and expertise between the **factoring and commercial finance**

industry and key legislative decision makers across Europe. Its aim is to provide legislators and policy makers with vital industry information to inform, influence and assist with the direction of existing and future finance legislation with a view to ensuring the continued provision of prudent, well structured and reasonably priced finance to businesses across the EU.

The Factoring and Commercial Finance Industry has a valuable role to play in the EU economy and the EU Forum will work to engage in debate with regulators and legislators, to ensure they are fully aware of the benefits that the Industry has to offer within current financial markets.



EU Forum Objectives

- To **represent the Industry** with EU policy makers and to promote harmonization in the EU legal, fiscal and regulation environment
- To **promote** an understanding of the benefits of Factoring, Receivables financing and ABL as an appropriate and flexible form of growth finance from companies
- To **gather information** and publish papers and statistics, on industry-related subjects
- To **observe law and EU Policy** initiatives affecting the Industry and to lobby in favor of policy decisions that can increase the growth and effectiveness of the Industry or lobby against policy initiatives that would put barriers on the Industry's growth thus removing an effective and efficient form of finance for business
- To **encourage** the establishment of Factoring and Commercial Finance activities in EU countries



Over the last twenty years factoring and commercial finance has established itself as an important form of finance for corporates, particularly the SME community. The unique structure and risk attributes of factoring and other types of commercial finance make it possible for these products to be available where other more traditional forms of finance are not. This combined with the dynamic nature of factoring and commercial finance, which is directly linked to the performance of the funded company, makes it an increasingly important product within the current economic climate.

In recent years, the Factoring industry has experienced remarkable growth in activity, resulting in **2008** in a **world total business volume of EUR 1,325 billion**, compared to EUR 760 billion, five **years** earlier. Fifty seven percent of industry players are specialized bank subsidiaries, twenty four percent are bank divisions and nineteen percent are non-bank institutions. It is estimated that the Factoring and Commercial Finance Industry employs over **80,000 people**.

The figures **for the EU countries** are even more encouraging as the 2008 volume of **EUR 833 billion** clearly illustrates that with **75% of the world volume**, the European Factoring and Commercial Finance Industry has already **the deepest market penetration** compared to other industrialised geographic areas. However, with many EU countries, in the early stages of a growth cycle, the potential for factoring and commercial finance to grow, pushing

billions of additional funding into the EU, is in strong contrast to the traditional banking sector.

Factoring and Commercial Finance occupies a unique place in the world of finance. The global financial crisis of 2008, has resulted in many companies, particularly SME's, experiencing greater difficulty in obtaining traditional bank funding. Factoring and Commercial Finance Companies however are experiencing increasing levels of new business enquiries and are continuing to write more new business than ever before. The finance factoring companies provide is secured by the underlying receivables, or other assets. With a much reduced emphasis on the balance sheet a factor is able to provide significantly higher levels of finance to companies experiencing temporary difficulties or those experiencing liquidity problems as a result of strong growth.





The **Factoring and Commercial Finance Industry** has a proven track record in good risk management with a low “loss given default” ratio, even when financing SME’s who are generally considered as higher risk. This unique aspect of **the Factoring and Commercial Finance Industry offers a great advantage in terms of Risk Adjusted Capital Requirements, as prescribed by regulatory rules such as Basel II.**

Factoring and Commercial Finance offer companies a **flexible form of finance** with the possibility of **outsourcing credit** and **risk management**, improving performance and quality, providing access to leading technology, and freeing up key resources for strategic developments. Factoring and Commercial Finance have proven to be consistent financial instruments which stimulate the growth and success of companies.

Hence our **motto** :

The potential for this market to grow and overcome many of the issues that currently exist in terms of small businesses funding is great. However there are still issues that hinder development. The legal environment across Europe is very different and, amongst other things is a barrier to market development on a European scale – and this is just one example. With the **creation of the EUF** factoring associations across the EU have come together to join forces and combine resources to improve the availability of corporate finance and will hopefully surpass these obstacles.



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Who is involved?



The **EUF** has an international pedigree as it brings together all major national associations in the EU as well as **two global factoring associations**.

At the moment these associations represent approximately **280 Factoring and Commercial Finance companies** within the EU.

The level of knowledge and expertise that each member brings to the project is simply extraordinary.

Members of EUF

Name	Country	Website
The Asset Based Finance Association (ABFA)	UK & Ireland	www.abfa.org.uk
Asociacion Española de Factoring (AEF)	Spain	www.factoringasociacion.com
l'Association Française des Sociétés financières (ASF)	France	www.asf-france.com
Associazione Italiana per il Factoring (ASSIFACT)	Italy	www.assifact.it
Deutscher Factoring-Verband (DFV)	Germany	www.factoring.de
Factors Chain International (FCI)	EU countries	www.factors-chain.com
International Factors Group (IFG)	EU Countries	www.ifgroup.com
Polski Związek Faktorów (PZF)	Poland	www.faktoring.pl



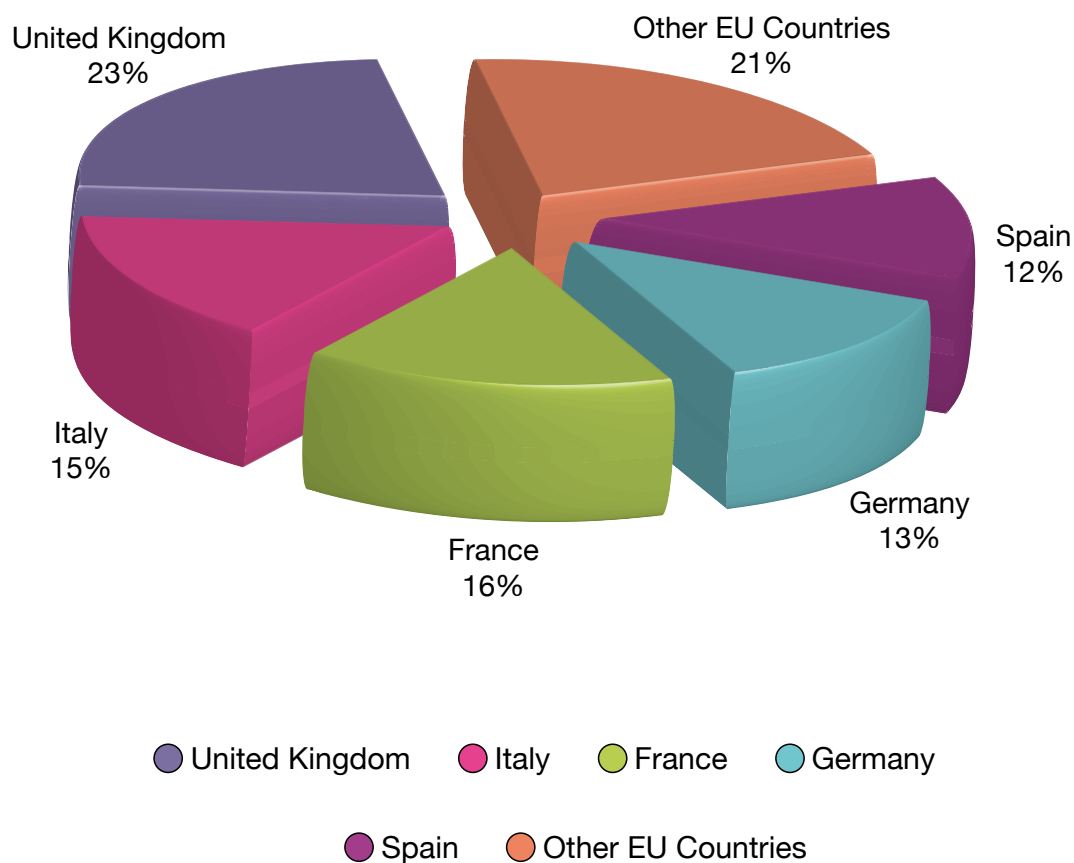


Five countries made up 80% of the Industry turnover in the EU in 2008.

From these the UK alone is almost equivalent to the volume of the next three combined. However in 2008 vol-

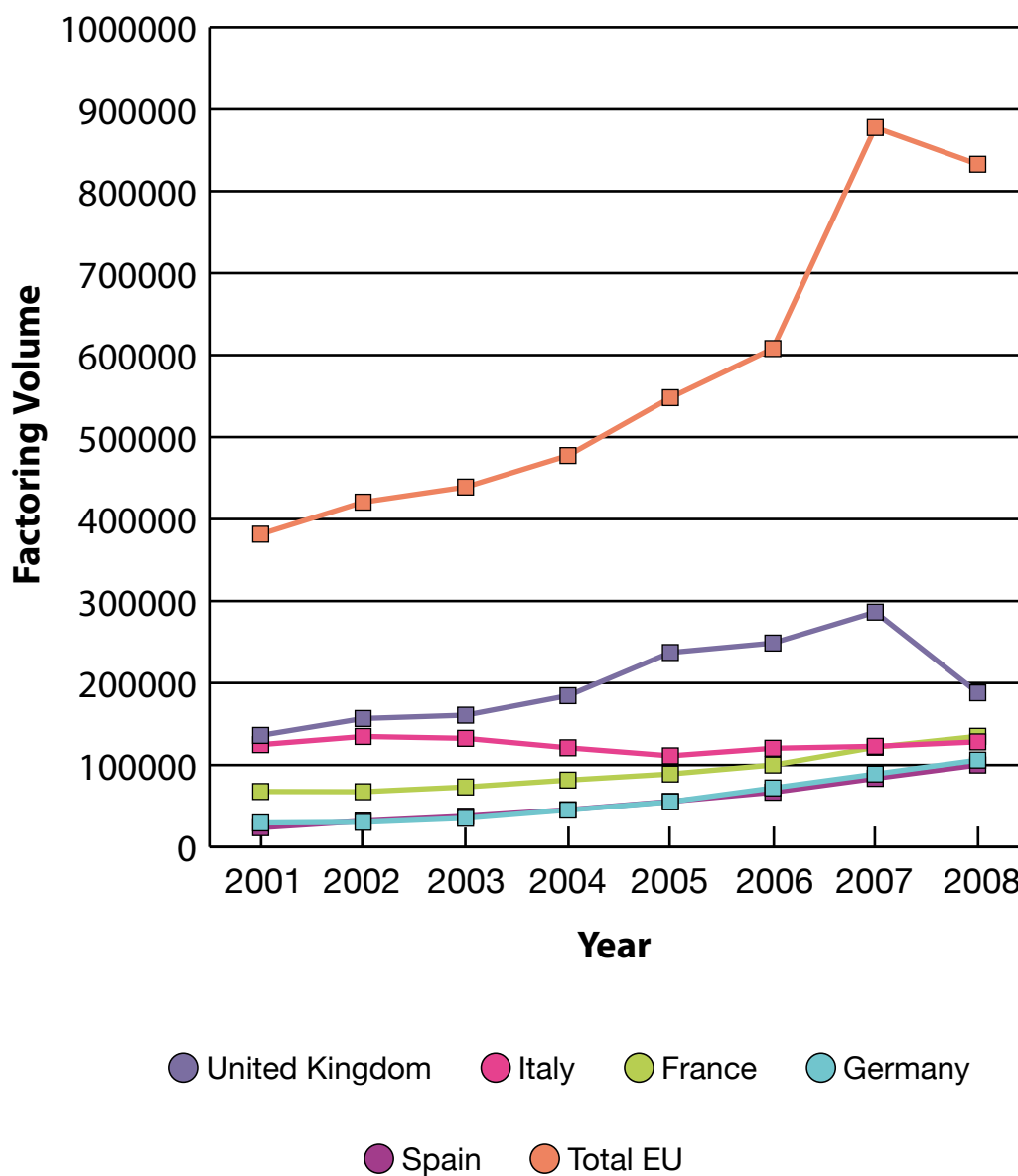
umes expressed in Euro from the UK have dropped significantly due to a weak pound. If we express the figures in pounds however volumes remain the same.

Total Factoring Volume in EU in 2008 (in millions of EUR)





Factoring evolutions per country
(2001-2008)





Total Factoring Volume in EU by Country in the last 5 years (in Millions of EUR)

No.	Country	2004	2005	2006	2007	2008	GDP penetration in 2008	Market Share 2008
1	Austria	3 692	4 273	4 733	5 219	6 350	2,40%	0,76%
2	Belgium	13 500	14 000	16 700	19 200	22 500	7,03%	2,70%
3	Bulgaria	0	0	35	300	450	0,59%	0,05%
4	Cyprus	2 140	2 425	2 546	2 985	3 255	17,97%	0,39%
5	Czech Republic	2 620	2 885	4 025	4 780	5 000	2,38%	0,60%
6	Denmark	6 780	7 775	7 685	8 474	5 500	3,21%	0,66%
7	Estonia	3 920	2 400	2 900	1 300	1 427	5,94%	0,17%
8	Finland	9 167	10 470	11 100	12 650	12 650	8,13%	1,52%
9	France	81 600	89 020	100 009	121 660	135 000	7,74%	16,21%
10	Germany	45 000	55 110	72 000	89 000	106 000	4,59%	12,73%
11	Greece	4 430	4 510	5 230	7 420	10 200	3,76%	1,22%
12	Hungary	1 375	1 820	2 880	3 100	3 200	2,02%	0,38%
13	Ireland	13 150	23 180	29 693	22 919	24 000	15,28%	2,88%
14	Italy	121 000	111 175	120 435	122 800	128 200	8,54%	15,39%
15	Latvia	155	20	276	1 160	1 520	4,63%	0,18%
16	Lithuania	1 040	1 640	1 896	2 690	3 350	6,63%	0,40%
17	Luxembourg	285	280	306	490	600	1,91%	0,07%
18	Malta	0	0	1	25	52	0,66%	0,01%
19	Netherlands	19 600	23 300	25 500	31 820	30 000	5,65%	3,60%
20	Poland	3 540	3 700	4 425	7 900	7 800	1,51%	0,94%
21	Portugal	14 700	16 965	16 886	16 888	18 000	9,25%	2,16%
22	Romania	420	550	750	1 300	1 650	0,68%	0,20%
23	Slovakia	665	830	1 311	1 380	1 600	1,62%	0,19%
24	Slovenia	185	230	340	455	650	1,46%	0,08%
25	Spain	45 376	55 515	66 772	83 699	100 000	8,41%	12,01%
26	Sweden	14 500	19 800	21 700	21 700	16 000	5,83%	1,92%
27	United Kingdom	184 520	237 205	248 769	286 496	188 000	10,18%	22,57%
Total EU		593 360	689 078	768 903	877 810	832 954	6.69%	100,00%





Differences between EU countries in the legal environments due to the assignment of receivables or due to other issues have meant that no uniform definition of Factoring or Commercial Finance exists. Notwithstanding these differences, most **Factoring and Commercial Finance** activities have **the same core: providing flexible finance against the assignment of commercial receivables**. The Industry in Europe started with Full Factoring services in the late fifties-early sixties. Since then a range of products has evolved, collectively referred to as Commercial Finance, the generic term for all forms of receivables financing. Recently, the Industry has also begun to provide a product known as Asset Based Lending, which offers secured finance against a range of assets, in addition to receivables. All forms of Commercial Finance can include domestic activities (where both supplier and debtors are in the same country) or international activities (supplier and debtor in different countries).

The following product descriptions are generally representative although it should be recognized that the nature of local legislation will mean the delivery of each product may vary from country to country.

Factoring

Sometimes referred to as a **Full Service Factoring**, this provides the complete answer to slow-paying customers, shortage of working capital and, if needed, protection against bad debt losses. If credit protection is part of the Factoring agreement, it is referred to as **“non-recourse” Factoring**. A Factoring agreement where the credit risk on the debtor remains with the seller is called **“with-recourse” Factoring**.

With a Factoring solution the Factor agrees to pay an agreed percentage of approved debts as soon as he receives an assignment, or notification, of the invoice. The percentage depends upon a number of factors, but 80-85% is common. The balance, less charges, is paid when the customer pays. This flexible finance keeps pace with business growth as the funding is dynamically linked to the turnover of the company.

The Factor will also undertake all credit management and collections work, following an agreed credit policy designed to ensure faster customer payments without loss of goodwill. The savings in administration are substantial, and faster customer payments mean lower levels of advances and lower interest costs. There will normally be a charge for the collections service and, if required, bad debt protection; this will usually be expressed as a percentage of turnover. An offer of factoring will take the form of a formal quotation after the Factor gains an understanding of a business and the workload to be undertaken.





For finance provided in advance of collections there is usually a discount charge calculated on the day-to-day usage of funds. It is likely to be comparable with normal secured bank overdraft rates. This type of finance is generally of interest to start-up and SME sized companies.

Factoring is offered in all EU countries and is especially important in the more emerging EU markets.

Invoice Discounting _____

If a company already practices sound credit management, and has the staff and systems to generate rapid customer collections, some of the Factor's skills will not be required. However, there may still be a need to turn debtors into cash more rapidly and generate working capital from the sales ledger balance.

Invoice Discounting is the ideal solution for this scenario. Immediate cash is available for up to 80-85% of approved invoices. However, responsibility for the sales ledger operation remains with the company's organization. The service may be offered on a confidential basis without disclosure to debtors. Payments for outstanding invoices are paid into a bank account administered by the Invoice Discounter, after which the company is credited with the balance less charges.

The administration charge may be a flat monthly fee or a percentage of turnover. A facility offer will take the form of a formal quotation after the Invoice Discounter gains an understanding of the business requirements. As in the case

of Factoring, for finance provided in advance of collections there is normally a discount charge calculated on the day-to-day usage of funds. Again, it is likely to be comparable with normal secured bank overdraft rates.

Invoice Discounting started in the eighties in the UK and is today offered in most of the mature markets of the EU.

Reverse Factoring or Factoring to supplier _____

For this form of Commercial Finance, a contract is set up between the Factor and a (strong) buyer. Based on the solvency of the buyer and knowing the identity of his suppliers, in Reverse factoring the Factoring company contacts the suppliers and offers them a Factoring contract on one single debtor, the buyer.

In Reverse Factoring the Factor signs a contract with the buyer who provides him with a list of approved invoices to be paid by the buyer in the coming weeks or months. This list permits the Factor to offer each supplier an option to discount (without recourse) their invoices. The supplier may **accept this offer** for the total invoices or for **some of them** or even **refuse the offer**. In this case, at maturity, the Factor will transfer the funds to the bank account of the supplier.

If the supplier accepts the discount he must return the offer duly signed to the Factor who will make the advanced payment (fees and interest deducted), to the bank account of the supplier.





With Reverse Factoring the supplier gets an extra funding line and the buyer outsources his payments workload.

Reverse factoring is very popular in Spain where it represents 40% of the market.

Maturity Factoring _____

In this form of Factoring the supplier receives the payment of the receivables on the **due date** or on a certain and fixed date, usually pre-agreed on the basis of the average payment period taken by the debtor.

Maturity Factoring can be either with recourse or without recourse and allows the supplier to predict and **optimize cash flows**, to **outsource** the receivables management to a specialist and to **extend payment terms** (with a resulting positive effect on sales) with no supplementary costs.

This form of Commercial Finance is often used in Italy.

Asset Based Lending _____

Asset Based Lenders will set up finance schemes which go beyond the financing of receivables. Assets such as stock, plant & machinery, property or even intellectual property can be used as security for additional finance. ABL facilities are more complicated structures combining revolving credit lines based on current assets with amortising loans based on fixed assets. **ABL** is used for bigger clients, typically in a restructuring or MBO situation. Syndication between ABL companies for very large facilities is very common.

Asset based lending is a relatively new form of commercial finance originating from the US. It is mostly offered in the UK.





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Contact Info

Avenue R. Vandendriessche, 18 (box 15)
BE- 1150 BRUSSELS (Belgium)
c/o IFG secretariat

Tel.: 32/2/772-6969

Fax: 32/2/772-6419

Sebastian Munteanu

EUF Coordinator :

+32/2/775 8272

s.munteanu@euf.eu.com