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OGGETTO: **EUF Newsletter Autumn 2021**

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Cordiali saluti

Il Segretario Generale
Alessandro Carretta

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NEWSLETTER / NOVEMBER 2021 / ISSUE 21

EUFederation

Connecting and Supporting the Commercial Finance Industry Worldwide

Contents:

Welcome from Françoise Palle-Guillabert

Chair EUF

It's always a pleasure to introduce the EUF newsletter, which allows to engage in a dialogue with the members and to make a review of the past six months. They have been marked by the recovery of the economy in a context where the Covid-19 virus remains active.

The European factoring market has been favourably impacted by economic trends. After a one-year drop due to the international pandemic, it again recorded an increase in the first half of 2021 of 10.7%. The European factoring still represents 2/3 of the world market and 11% of the EU GDP. Factoring remains clearly connected to the GDP in Europe.

These figures show once again that factoring has a key role to play in supporting economic recovery, employment, and wealth creation in Europe. The EUF continues to work to engage in debate with regulators and legislators to ensure they are fully aware of the benefits that the factoring industry has to offer within current financial products. For this purpose, during the summer, the EUF published the update of the legal study. This latest 2021 version is a unique and comprehensive compendium of the different legal, fiscal and other environments of receivables financing in all of the EU member states and some important non-EU "benchmark" countries, United Kingdom, Norway, Russia, Switzerland, Turkey and the USA.

The EUF also works on numerous prudential issues in order to seek appropriate support for business. One of the subjects is the new Definition of Default with the purpose not to burden the industry with unjustified levels of own funds. Talks are still ongoing with the European Banking Authority (EBA) to achieve and adapt treatment. One solution could be to increase from 30 to 90 days the technical defaults for all businesses. Another could be the facility level approach with the application of the rule invoice by invoice. European banking players from the Chief Risk Officers group (CRO) have asked for an adapted treatment as well.

Another issue is the answer to the call for the advice of the European Commission on digital finance and related issues that raise the question of non-regulated financial companies.

And last but not least, in the coming months, we will have to work on the implementation of Basel 3 in the European CRD and CRR. Even if the entry into force has been postponed from 2023 to 2025, the Commission has opened the door for adapted treatment for factoring with mandates to the EBA to assess the right calibration.

These are collective tasks that await us and for which the expertise of EUF is a real asset!

Kind regards,

Françoise Palle-Guillabert

Chair EUF

The Legal Committee

The EUF Legal Study 2021 is now available!

MAGDALENA WESSEL
EUF Vice-Chair and Chair of
EUF Legal Committee

In 2011, the EUF, for the first time, published a legal study under the title "Factoring, Receivables Finance & ABL – A Study of Legal Environments Across Europe 2011". This was the update of a comparative law project which had originally been started in 2007by the UK's ABFA (now UK Finance) and the international association IFG (now FCI).

After a few years, it was clear that an update to the 2011 edition would be required. Therefore, a second and updated edition of the EUF Legal Study was published in 2013, and another third update for 2017 was published in early 2018.

Since then, several years have passed, and in the world of lawyers, this can be a very long time because supposedly minor changes to laws can lead to the complete collapse of a whole world of legal concepts and views. Therefore, the EUF started a fourth updating process for its legal study in 2020. This further update was finalised in the late summer of 2021 and the result is now available through the EUF website in the form of the EUF Legal Study 2021.

The questionnaire on which the EUF Legal Study is based had already been amended and extended for the 2017-update, but it was further reviewed in the 2021 updating process to include questions on, e.g. factoring-related aspects of sustainability regulation and reporting duties such as AnaCredit, the national implementation of the e-invoicing and the restructuring directives and the introduction of split payment or similar systems under national VAT regimes. Moreover, countermeasures to the economic effects of the ongoing COVID19-pandemic were, of course, also referred to in the revised questionnaire and many responses pointed out that new legislation had been adopted in this context, albeit often measures of a temporary nature.

Fortunately, and in contrast to the last updated edition of 2017/2018, the current 2021 EUF Legal Study contains updated responses from all target countries, i.e. from all EU member states as well as six benchmark states from outside the EU (Norway, Switzerland, Russia, Turkey, the USA and – due to Brexit - Great Britain).

The updated EUF Legal Study also contains an updated introduction and an equally updated elaborate and detailed "Summary and Conclusion"-section, the latter giving an overview of the major differences and parallels

THE UPDATED EUF LEGAL STUDY IS UNIQUE IN THAT IT PROVIDES AN OVERVIEW OF THE LEGAL FRAMEWORK FOR FACTORING IN ALL EU MEMBER STATES AS WELL AS SIX OTHER IMPORTANT NON-EU COUNTRIES.

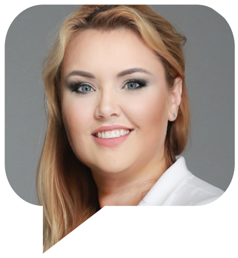
between the various legal systems and their treatment and views of factoring and receivables financing as portrayed in the answers contained in the Legal Study. As the questionnaire on which the EUF Legal Study is based was once more reviewed and amended, and also because of the more comprehensive number of responses, a direct comparison of the answers provided in the last edition(s) and now in this updated 2021 edition is not always possible. Nevertheless, the "Summary and Conclusion"-section provides an insight into some changes that have taken place over the last few years, including changes with both direct and indirect effects on factoring, such as, e.g. the introduction of new insolvency laws in the Czech Republic and Belgium, and new registration requirements being introduced for factoring agreements in Russia.

The updated EUF Legal Study is unique in that it provides an overview of the legal framework for factoring in all EU member states as well as six other important non-EU countries. The answers to the questionnaire on which the EUF Legal Study is based have been written by knowledgeable persons from within the factoring industry who have drawn from their expertise and their experience with both the law and factoring.

EUF members can download the updated EUF Legal Study 2021 from the "members only"-section, while other interested third parties can purchase PDF copies from the EUF through its website.

The Economics and Statistics Committee

2021 IH European Factoring Turnover Figures



MAGDALENA CIECHOMSKA-BARCZAK
Chairwoman of the Economics and Statistics Committee

Gathered data for the European factoring market for IH 2021 has shown again year on year increase of 10.7% for European countries, compared to a 6.0% decrease after IH 2020.

Total factoring turnover for European countries reached 953 billion euros comparing to 854 billion euros in IH 2020.

Graph 1. Turnover by country IH 2021

EUF Statistics
30 June 2021

Turnover volumes by Country (Millions of €)						
30 June 2021	**Notes**	**Total Turnover**	**pct var. on the previous year (Total)**	**GDP Penetration**	**Country GDP change y/y**	**Market share**
Austria*		14,219	11..0%	7.4%	4.7%	1.5%
Belgium*		47,090	20.2%	19.6%	10.3%	4.9%
Croatia*		565	22.9%	2.2%	10.0%	0.1%
Czechia*	(1)	4,244	27.2%	3.8%	9.2%	0.4%
Denmark*	(1)/(2)	9,369	0.0%	5.8%	5.6%	1.0%
France*		174,249	14.1%	14.4%	9.7%	18.3%
Germany*		146,477	8.6%	8.6%	4.4%	15.4%
Greece*		7,965	14.8%	9.5%	6.4%	0.8%
Italy*		119,896	12.0%	14.0%	10.2%	12.6%
Netherlands*		62,050	9.5%	14.9%	5.8%	6.5%
Poland*	(1)	36,780	22.9%	13.9%	7.3%	3.9%
Portugal*		15,774	4.1%	15.4%	5.3%	1.7%
Spain*		93,406	6.3%	15.9%	8.5%	9.8%
Other EU Countries	(1)/(2)/(3)	55,149	0.0%	5.8%	10.2%	5.8%
EU Countries	**(1)/(2)**	**787,230**	**10.6%**	**11.4%**	**7.7%**	**82.6%**
Norway*	(1)	12,962	2.7%	7.0%	17.7%	1.4%
United Kingdom*	(3)	153,158	11.9%	12.3%	6.5%	16.1%
European Countries	**(1)/(2)/(3)**	**953,350**	**10.7%**	**11.4%**	**7.7%**	**100.0%**
EUF Members or Partners (*)		**898,202**	**11.5%**	**12.2%**	**7.4%**	**94.2%**

Notes:
1) Pct variation has been corrected in order to avoid biases due to exchange rates fluctuation.
2) Due to the lack of information - previous years' IHY turnover was taken
3) GDP estimates on the basis of the available information. In case EU GDP values - unadjusted data were used
Source: EUF Members. Eurostat. statistia.com

The increase in factoring turnover was higher than the GDP yearly change of 7.7%.

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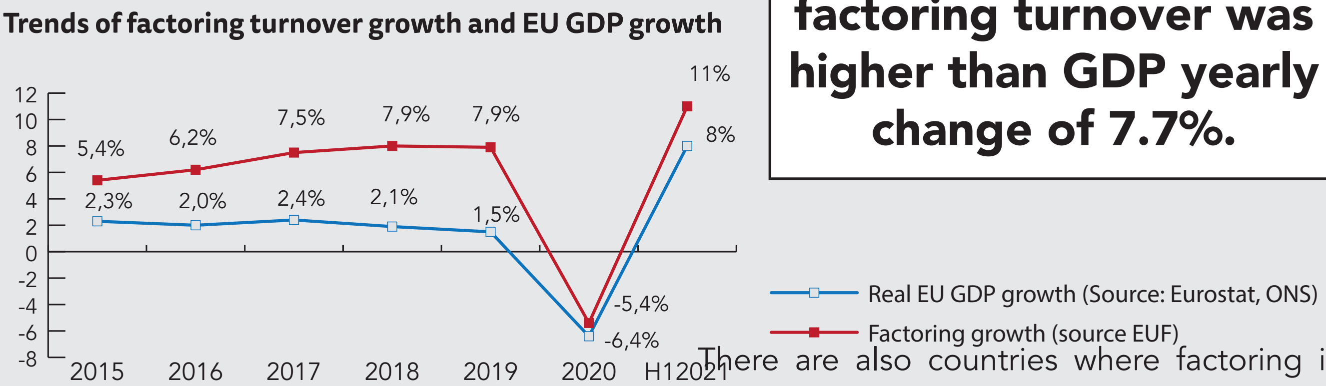
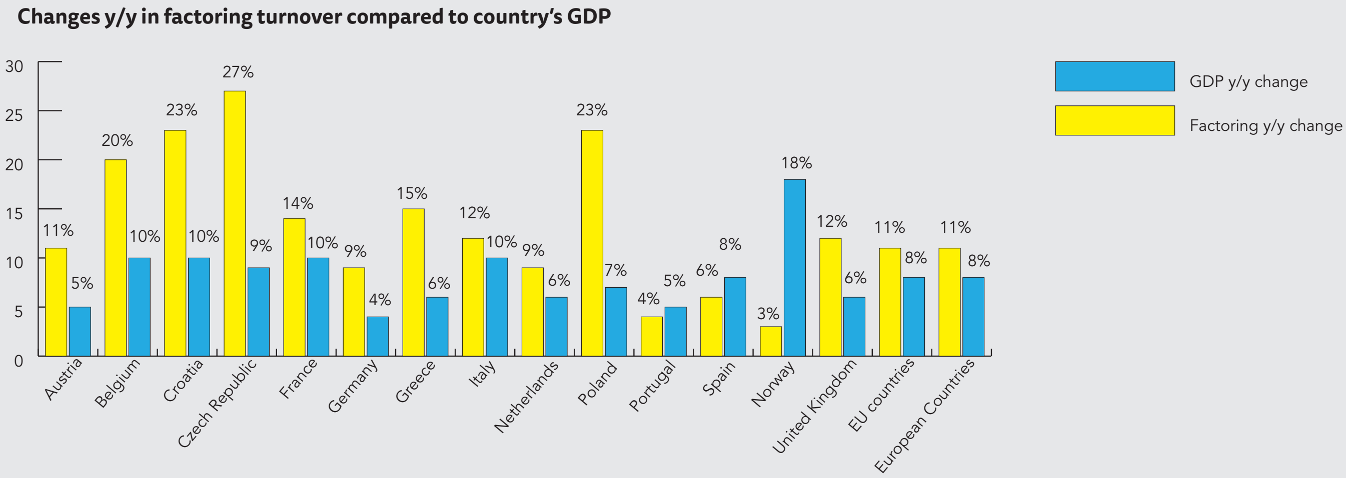


Graph 2. Trends of factoring turnover growth and European GDP growth

The trends differ between countries. In almost all countries, the increase of factoring y/y is higher than the county's GDP change. Only in Spain, Portugal and Norway, the GDP have a higher yearly increase than factoring turnover.

There are also countries where factoring is developing significantly faster than other country's GDP: Poland, Czech Republic, Croatia, Belgium, Greece, Austria and UK.

The leader of the EU market in IH 2021 was

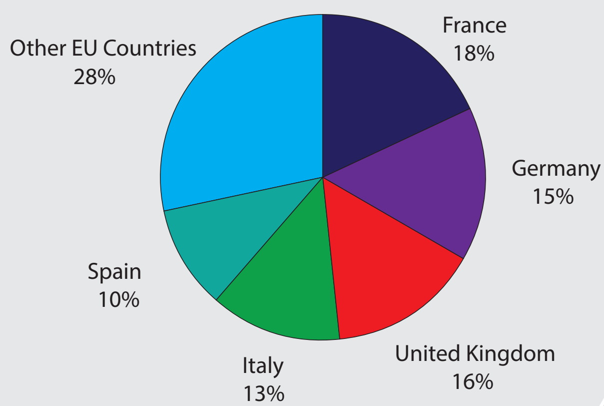


Graph 3. Changes y/y in factoring turnover compared to country's GDP

still France with 18% of the market, the next were: UK (return on vice leader position) with 16% of market share, Germany 15%, Italy 13% and Spain 10%. These top 5 countries represent 72% of the EU factoring market (exactly the same as in the previous year).

In conclusion – data for IH 2021 shows clearly that factoring turnover is closely related to GDP and reflects (with small positive deviation) the changes in European GDP. Due to that fact whole European factoring market responded positively to economic trends and, after a one year of drop, again recorded an increase.

Top 5 Countries



Graph 4. Top 5 countries

Financing of Orders by French Factors

FRANÇOISE PALLE GUILLABERT
Chair EUF

During the covid-crisis in France, the finance bill approved in July 2020 contains a measure strengthening the financing of companies' cash flow. The measure works by granting the State's guarantee for the financing of orders by factoring companies. This part of the financing, which occurs before the issuance of the invoice, is by nature riskier and will benefit from the State guarantee until the issuance of the invoice. The system initiated by ASF factors is in Europe a pioneering scheme and was welcomed in July 2020 by a press release from the Ministry of the Economy and Finance.

The law is supplemented by:

- an implementing decree, signed at the beginning of September by the Minister Bruno Le Maire (on how the system works),
- a set of educational questions / answers (FAQ) posted on Bercy's website,
- a "deed of accession" of the lenders concerned with BPI, the Banque Publique d'Investissement,

- template files to be used for the transmission to BPI of the required information to trigger the State guarantee, if necessary.

Industry players were deeply involved throughout the summer in the preparation of these documents as part of the consultations organised by the Treasury.

The main features of the system are as follows:

- an irrevocable and unconditional State guarantee, as part of the € 300 bn package of the Prêt Garanti par l'Etat (PGE), and for up to € 20 bn,
- granting of the financing governed by a framework contract or an amendment to the factoring contract,
- firm, definitive and confirmed orders,
- invoicing of orders within 6 months of the order's issuance date,
- financing due 60 days after the latest of the dates initially planned for the issuance of invoices,
- two separate financing facilities financing orders and invoices (whether linked to orders or not),
- self-certification by eligible businesses that all of the state-guaranteed loans they benefit from represent less than 12 (or 18) months of cash flow (depending on their size),
- notification by the factor to BPI of the guaranteed financing granted,
- state guarantee up to 90% (SMEs) or 70% (large companies) of the sums due after offsetting the order account and the invoice account,
- guarantee with provisional payment mechanism can only be called within 3

months of BPI's agreement.

In line with an industry commitment, this new product will be offered at a rate that will cover development costs, including the cost of the State guarantee and the financing fee.

A press breakfast was organised on 3rd September by the ASF's board of the Factoring Commission (Patrick de Villepin, Eric Frachon and Philippe Mutin) for a technical discussion with journalists ahead of the launch of the product by the Minister upon signing of the decree. A joint press release from the ASF with the Minister was made public on Sunday 6th September and published on social networks and the ASF website.

Like the PGE, the State guarantee scheme for the financing of orders was extended twice by the French Parliament up to December 2021. The specifications were amended accordingly by two decrees. In particular, the agreement between BPI and the factors has to be updated; it governs the reporting of transactions and the operational calling of the guarantee.

At the beginning of September 2021, the volume of the financing of orders remained relatively modest due in particular to the novelty of the product, and the impact of the Prêt Garanti par l'Etat (PGE) granted to 695.000 businesses for an amount of € 142 bn. The great success of the PGE allows companies to have a large amount of cash flow and significantly reduce their financing needs. But the demand for the financing of orders could be much greater if it were used to replace the PGE when working capital needs are affected by the crisis increase. In addition, the ASF Factoring Commission plans to continue promoting the product during a press breakfast dedicated to factoring on 30th September 2021.

The great success of the PGE allows companies to have a large amount of cash flow and significantly reduce their financing needs

More than ever, the factoring industry has a key role to play in supporting economic recovery, employment and wealth creation in France and Europe.

The Prudential Risk Committee

Final Implementation of Basel III: Risks or Opportunities for Factoring?

DIEGO TAVECCHIA
Chairman of the PRC Committee

On 27th October 2021, the European Commission released its package of proposals to amend the CRD and the CRR to implement the whole "Basel III" reform.

These final proposals follow a number of interventions on the prudential regulation that anticipated some of the provisions of the new Basel standards, the last of which was the famous "quick fix" package in response to the COVID crisis. In light of the COVID-19 pandemic, moreover, the preparatory work of the proposals has been delayed. The delay reflected the BCBS's decision of 26th March 2020 to postpone the previously agreed implementation deadlines for the final elements of the Basel III reform by one year.

With this new package, currently subject to public consultation, the European Commission intends to complete the decade-long reform of the prudential banking regulation and pursue the following main priorities:

i. strengthen the risk-based capital framework (without significant increases in capital requirements overall)

ii. enhance the focus on ESG risks in the prudential framework

iii. further harmonise supervisory powers and tools

iv. reduce institutions' administrative costs related to public disclosures and improve access to institutions' prudential data.

The **new CRR shall apply from 1st January 2025**.

Among the most interesting items for the factoring industry, I would like to underline a couple of passages that might be a "game-changer" in the prudential requirements for factoring companies.

First of all, the consultation paper includes the long-awaited opening to the use of trade credit insurance as a tool of credit risk mitigation. The factoring industry has long supported the effectiveness of credit insurance policies to transfer debtor default risk and dramatically reduce the overall risk of the exposures to factoring agreements.

> ***The Commission finally acknowledges that "A high level of expertise and risk management has been developed by institutions in the EU […] in the use of credit insurance, in particular for trade finance purposes***

On this point, the Commission finally acknowledges that "A high level of expertise and risk management has been developed by institutions in the EU […] in the use of credit insurance, in particular for trade finance purposes" and mandates that "By 31st December 2026, EBA shall report to the Commission on the eligibility and use of policy insurance as credit risk mitigation techniques […]". So even if there's still a lot of uncertainty, it's excellent to see the Commission acting in response to a special request of the industry and, in particular, of the EUF.

Another interesting point is the proposed introduction (among others) of two new portfolios under the IRB approach, namely "corporate purchased receivables" and "retail purchased receivables". Although nothing more is said on this point within the consultation paper, the amendment again provides that "EBA shall develop draft regulatory technical standards to specify the treatment applicable to exposures belonging to the exposure class 'corporates purchased receivables' […] and the exposure class 'retail purchased receivables' […], for the purposes of calculating risk-weighted exposure amounts for the default risk and for the dilution risk of those exposures, including for the recognition of credit risk mitigation techniques. EBA shall submit those draft regulatory technical standards to the Commission by 31st December 2025."

THIS SEEMS TO OPEN THE DOOR TO DIFFERENTIATION OF FACTORING AND RECEIVABLES FINANCE FROM "TRADITIONAL" BANK LOANS TO BUSINESSES.

I have to note that the requests from the EUF were mostly about the Standardized Approach. However, this seems to open the door to differentiation of factoring and receivables finance from "traditional" bank loans to businesses.

Although not everything is bright in the paper, and there are some potential issues to address, these new proposals may be welcomed as a first step in the direction of a (more) risk-sensitive and proportionate treatment of receivables-based finance under the prudential framework. But, even if they go all the way to the Official Journal of the European Union, their actual impact will still be unknown.

The EBA will play a vital role in the process, as it is entrusted with the study and proposal of specific regulatory standards both on credit insurance and purchased receivables. The EUF will closely and proactively monitor any development.

THE EBA WILL PLAY A VITAL ROLE IN THE PROCESS, AS IT IS ENTRUSTED WITH THE STUDY AND PROPOSAL OF SPECIFIC REGULATORY STANDARDS BOTH ON CREDIT INSURANCE AND PURCHASED RECEIVABLES.

EU FEDERATION FOR FACTORING AND COMMERCIAL FINANCE

The EUF 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 EUF seeks to engage with Government and legislators to enhance the availability of finance to business, with a particular emphasis on the SME community. The EUF, 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.

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