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OGGETTO: COMMISSIONE CREDITI E RISK MANAGEMENT

Draft paper EUF "The Case for Revising the EBA DoD Guidelines on Purchased Receivables"

Cordiali saluti

**Il Segretario Generale
Alessandro Carretta**

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(*) Coordinatore della Commissione

Presidente della Commissione: Fausto GALMARINI

Com'è noto, il CRR3 ha dato mandato ad EBA di aggiornare gli Orientamenti in materia di definizione di default, in particolare per garantire maggiore flessibilità nel caso di distressed restructuring. In questo contesto, EBA ha aperto alla possibilità di rivalutare anche il trattamento del factoring e ha chiesto ad EUF di fornire ulteriori dati e informazioni a supporto di tale richiesta.

Si trasmette in allegato, per eventuali osservazioni di tipo “fatal flaw” da trasmettere a efact@assifact.it **entro il 2 agosto p.v.**, il draft report dell'EUF intitolato “The Case for Revising the EBA DoD Guidelines on Purchased Receivables”. Il documento contiene, fra le altre cose, i risultati dell'indagine condotta presso le società di factoring europee e che ha coinvolto anche codesta Commissione.

Si ricorda che il presente documento, riservato agli Associati e non divulgabile all'esterno, è pubblicato nell'Area Commissioni dell'Area Riservata del sito associativo, a cui i membri delle Commissioni Tecniche possono accedere attraverso le credenziali personalizzate ricevute e che è possibile recuperare in autonomia le credenziali di accesso con il proprio indirizzo email cliccando su password o nome utente dimenticato: <https://areariservata.assifact.it>.

The Case for Revising the EBA DoD Guidelines on Purchased Receivables

DRAFT

Executive Summary

- The factoring market in the EU is particularly important. The total factoring turnover for EU Countries members reached 2 trillion and 5 billion euros, representing a penetration of 12,1% on the total EU GDP. The factoring industry in 2023 has served over 300,000 businesses, especially SME.
- The EUF conducted a detailed survey in 13 countries represented by its National Associations. Data from factoring companies covering over 50% of EU turnover showed that, as of December 31, 2023, the average past due over 90 days (PD90) ratio was 5,7%, a significant increase from the 0,9% average at the end of 2020, indicating a fivefold rise in the first three years of the new DoD's application.
- The survey revealed also that the new DoD led to significant operational efforts for factoring companies, with 63% rating the impact as high or severe. The contagion at the buyer's group level was a moderate to severe issue for 56%. In response, half of the companies adjusted policies, often reducing involvement with certain buyers. Notably, 80% reported a material increase in unnecessary default classifications, with 40% considering this impact severe. To support this evidence, in the first two years of application less than 2% of PD90 exposures was written off or re-classified as unlikely to pay, while most were eventually reimbursed or re-classified as performing.
- Trade receivables involve complexities like invoice disputes and delays, making the EBA's 30-day overdue period insufficient. Factors struggle with timing issues due to the need for invoice status updates, buyer interactions, and payment allocation.
- The dunning process of factoring companies consists of three stages: first reminder (5-25 days post-due date), second reminder (14-15 days after the first), and final measures (14 days after the second) such as credit insurance, collection agencies, or court actions.
- Late payments are commonly caused by disputes (e.g., faulty goods) or operational issues. Factoring companies often learn about these delays only after initiating dunning, which can take weeks or longer. Suppliers may accept late payments to preserve their buyer relationships.
- Data on a sample of buyers show that most of them pays with delays, with large invoices typically paid 0-60 days late due to thorough verification processes and end-of-month payment schedules. Longer delays (over 90 days) often involved disputed invoices or complex supply situations, representing a small (yet, existent) portion of the total payments.
- The EUF gathered and analyzed data of 385 buyers from top outstanding invoices at the end of 2023, representing European companies. The sample includes 285 performing buyers and 140 classified as past due over 90 days. Outstanding invoices totaled €6,28 billion, with 72% from investment-grade buyers. 15,7% of past-due over 90 days buyers had investment-grade ratings, indicating potential misclassification to default. Investment-grade and non-investment-grade companies showed similar past-due patterns, with investment-grade companies facing more invoices past due over 90 days. Case studies are provided to show the complexity of the suppliers-buyer reality.
- The analysis confirms that suppliers tolerate late payments from large corporations due to dependency and market imbalances, while factoring companies face undue stress from the EBA's tight default rules. Extending the technical past-due period from 30 to 90 days would reduce unwarranted defaults, improve dunning efficiency, and benefit supplier relationships and risk management.

The factoring market in Europe and the materiality of issues related to the DoD

The factoring market in the EU is particularly important.

According to FCI statistics, Europe accounts for 67% of the global factoring market¹ with more than 2,5 trillion euro of annual turnover for the year 2023 (gross amount of receivables purchased during the year).

The total factoring turnover for EU Countries members reached 2 trillion and 5 billion euros, representing a penetration of 12,1% on the total EU GDP. More than a half of the receivables have been purchased under a without recourse agreement. The factoring industry in 2023 has served over 300,000 businesses, especially SMEs, providing them with a flexible source of finance. By the end of 2023, the outstanding amount registered was 304 billion.

In without recourse agreement, the factor purchases the receivables from a seller and takes on the risk of the insolvency of the buyer. When the structure of the agreement is so that it substantially transfers to the factor all risks and rewards, the factoring will book, in its own balance sheets, an exposure to the buyer for the outstanding purchased invoices, valued at the price paid to the supplier (normally, the face value of the invoice less the factor's compensation). In the other case, the factor will book an exposure to the supplier for the amount paid in advance. The counterparty of these exposures for prudential purposes are defined accordingly.

The transfer of a receivable under a non-recourse agreement does not necessarily mean that the correspondent exposure will be reported in the balance sheets of the factor as an exposure to the debtor. In fact, it is common practice in non-recourse factoring, as well as in the case of credit insurance, to introduce risk mitigation elements in the contract that can affect the substantial transfer of risks and rewards under IFRS 9. The accounting treatment of an exposure that does not pass the so-called "derecognition test" is consistent with the treatment of recourse factoring.

That said, it is important to note that the nature of the factoring market is not the same across all jurisdictions and this also influence the materiality of DoD related issues. While non-recourse-oriented jurisdictions face the most significant consequences of the DoD Guidelines because of overlapping late payments by the buyers, recourse-oriented jurisdictions will be less impacted since, in the case of recourse factoring, the Guidelines emphasize the role of the assignor and the revolving nature of the exposures.

¹ <https://fci.nl/en/industry-statistics>

Fig. 1: Factoring turnover by country in 2023

Turnover volumes by Country (Millions of €)						
31 December 2023	Notes	Total Turnover	pct var. on the previous year (Total)	GDP Penetration	European Market Share	GDP pct var. on the PY **
Austria*		36 463	1,6%	7,0%	1,5%	-0,8%
Belgium*		135 734	9,3%	23,2%	5,6%	1,5%
Bulgaria	(1)/(2)	6 885	5,9%	7,3%	0,3%	1,8%
Croatia*	(1)	1 401	2,6%	1,8%	0,1%	2,6%
Cyprus	(2)	4 775	32,6%	16,0%	0,2%	2,5%
Czech Rep*	(1)	11 668	0,9%	3,9%	0,5%	-0,2%
Denmark*	(1)	19 494	-23,6%	5,2%	0,8%	1,8%
Estonia	(3)	3 900	0,0%	10,3%	0,2%	-3,0%
Finland	(3)	28 000	0,0%	10,1%	1,1%	-1,0%
France*		426 588	1,2%	15,2%	17,5%	0,9%
Germany*		384 444	3,1%	9,3%	15,7%	-0,3%
Greece*		24 690	5,0%	12,7%	1,0%	2,0%
Hungary	(1)/(2)	13 824	14,8%	7,0%	0,6%	-0,9%
Ireland	(3)	28 617	0,0%	5,7%	1,2%	-3,2%
Italy*		298 678	0,9%	14,3%	12,2%	0,9%
Latvia	(2)	802	-12,8%	2,0%	0,0%	-0,3%
Lithuania	(2)	5 100	-7,3%	7,1%	0,2%	-0,3%
Luxembourg	(3)	339	0,0%	0,4%	0,0%	-1,1%
Malta	(3)	696	0,0%	3,6%	0,0%	5,6%
Netherlands*		168 528	3,0%	16,3%	6,9%	0,1%
Poland*	(1)	103 489	-2,3%	13,8%	4,2%	0,2%
Portugal*		44 193	5,0%	16,6%	1,8%	2,3%
Romania	(1)/(2)	8 660	10,4%	2,7%	0,4%	2,1%
Slovakia	(3)	2 914	0,0%	2,4%	0,1%	1,1%
Slovenia	(2)	2 500	14,2%	4,0%	0,1%	1,6%
Spain*		270 393	6,0%	18,5%	11,1%	2,5%
Sweden	(3)	21 473	0,0%	3,9%	0,9%	-0,2%
EU Total Turnover	(1)/(2)/(3)	2 054 248	2,4%	12,1%	84,0%	0,5%
EU Members (*)	(1)	1 925 763	2,3%	13,3%	78,8%	0,6%
Norway *	(1)	26 173	-3,5%	5,8%	1,1%	0,5%
Switzerland	(3)	593	0,0%	0,1%	0,0%	0,7%
United Kingdom*	(1)	363 182	0,7%	11,7%	14,9%	0,1%
European Countries	(1)/(2)/(3)	2 444 195	2,1%	12,0%	100,0%	0,44%
EU Members or Partners (*)	(1)	2 315 117	2,0%	13,5%	94,7%	0,57%

* EUF members

** on the basis of data provided by members or Eurostat or www.countryeconomy.com

Notes:

1) Pct variation has been corrected in order to avoid biases due to exchange rates fluctuation.

2) Estimates on the basis of available information

3) Estimates of the turnover - the previous year's turnover implemented

Source: EUF Members, FCI, Eurostat, ONS, www.countryeconomy.com (GDP values in current market prices)

Fig. 2: Factoring turnover by country in 2023 – Total, non recourse and undisclosed.

EU TURNOVER DATA 2023

as at 31.12.2023

EU Member	Total turnover (EUR million)	Non recourse factoring (EUR million)	Non recourse factoring (%)	Undisclosed factoring (EUR million)	Undisclosed factoring (%)
Austria	36.463	26.413	72%	21.042	58%
Belgium	135.734	na	na	na	na
Croatia	1.401	1.312	94%	16	1%
Czech Rep	11.668	7.074	61%	na	na
Denmark	19.494	na	na	na	na
France*	426.588	226.092	53%	277.282	65%
Germany	384.444	380.599	99%	175.316	46%
Greece	24.690	10.790	44%	4.472	18%
Italy	298.678	238.943	80%	152.983	51%
Netherlands	168.528	61.122	36%	82.322	49%
Poland	103.489	50.739	49%	8.491	8%
Portugal	44.193	23.599	53%	2.210	5%
Spain	270.393	191.979	71%	33.437	25%
Total EUF Members	1.925.763	1.218.662	69%**	757.571	43%**
For reference: Non-EU Countries					
Norway	26.173	13.304	51%	1.007	4%
United Kingdom	363.182	35.120	10%	290.545	80%

* data on non recourse and undisclosed factoring are estimated

**calculated only on responding Members.

The EUF carried out a deeper survey on the 13 Countries that are represented by the National Associations that are part of the Federation. Data have been gathered from factoring companies operating in jurisdictions that cover more than 50% of the total turnover in the European Union. For the analyzed sample, the average past due over 90 days ratio for the sample was 5,7% as of December 31st, 2023, compared to an average of 0,9% at the end of the last year before the implementation of the new DoD (2020). That means a 5x average increase of the PD90 ratio within the first three years of application.

While part of this increase can be attributed to the purposefully tightened approach to identifying default exposures under the DoD, an average share of 30,9% of the exposures classified as PD90 is deemed by the interviewed factoring companies to be completely unjustified by the actual financial conditions of the corresponding buyers.

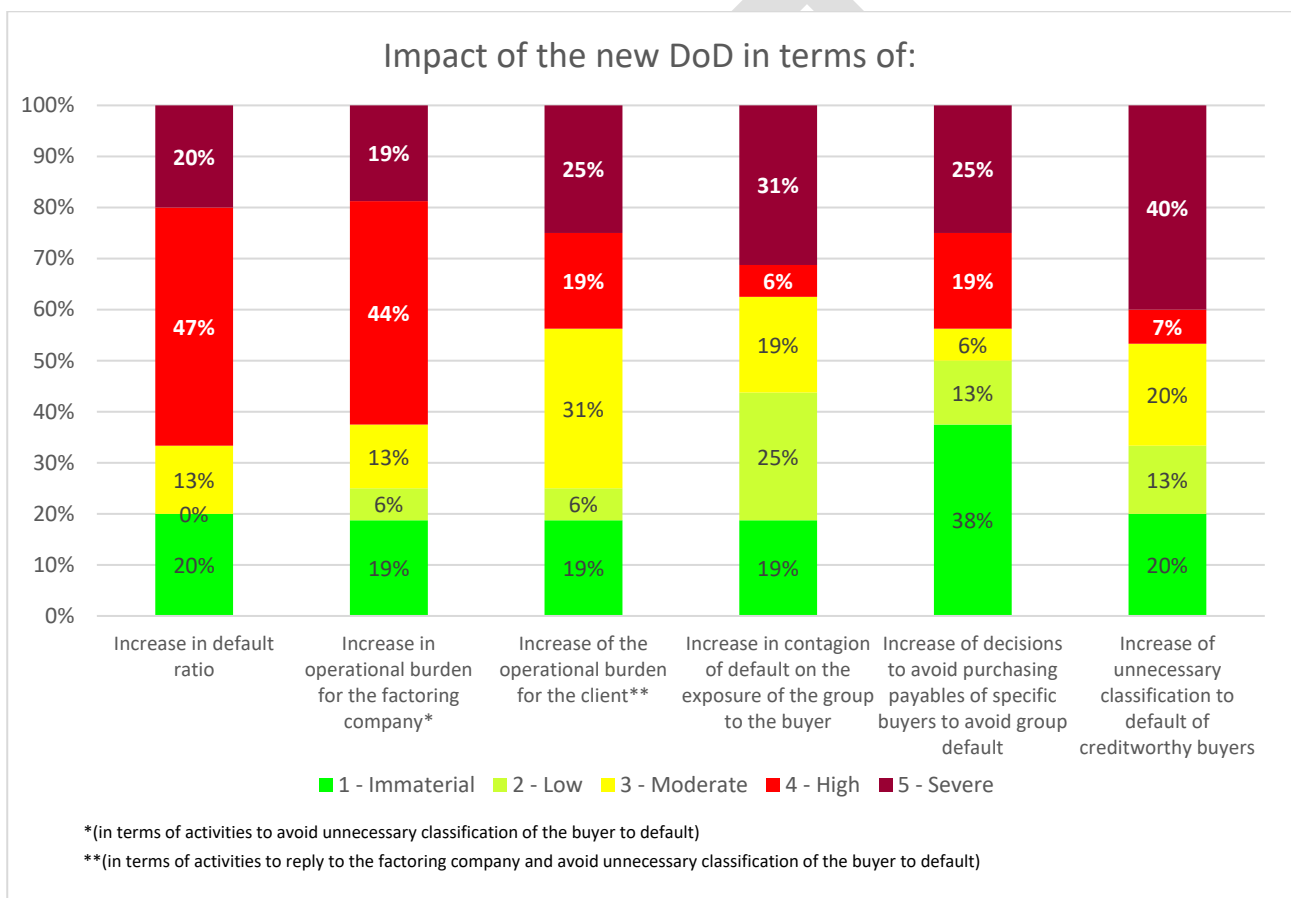
However, the impact of the new DoD cannot be measured only in terms of increase in the default ratio: in fact, there are significant implications that are more difficult to measure but yet are particularly relevant in terms of:

- Increase in operational burden for the factoring company (in terms of activities to avoid unnecessary classification of the buyer to default)

- Increase of the operational burden for the client (in terms of activities to reply to the factoring company and avoid unnecessary classification of the buyer to default)
- Increase in contagion of default on the exposure of the group to the buyer
- Increase of decisions to avoid purchasing payables of specific buyers to avoid group default
- Increase of unnecessary classification to default of creditworthy buyers

The sample provided a qualitative assessment of the impact of the new DoD on all these profiles, according to the following rank: 1 – Immaterial; 2 – Low; 3 – Moderate; 4 – High; 5 – Severe (see. Fig. 3).

Fig. 3: Impact of the new DoD – Total sample



The distribution of the replies reflects the above-mentioned differences across EU jurisdictions.

The analysis shows many interesting outcomes:

- The new DoD required a dramatic operational effort by the factoring companies to twist the normal dunning process in order to chase all invoices soon after the due date and identify the reasons behind the delay: 63% of the interviewed factors deemed such impact as high or severe. If an event related to dilution risk is recognized, then the buyer will not be considered as default. The same effort has been reflected on the client, even though with less emphasis.

- Contagion at group level of the buyer's classification to default is a major problem for most of the interviewed factors, even though the outcomes of the big efforts to avoid unnecessary classification to default of the buyers somehow reduced the relevance of this source of impact, which was however considered moderate, high or severe by 56% of the sample.
- In response, some factoring companies had to adjust their policies and eventually reduced their involvement with certain buyers. This non-risk-based decision was made to preserve the overall position of those buyers (typically large companies and good clients of the bank) within the entire banking group. This happened in a half of the sample.
- There is a clear indication that the new DoD has resulted in an increase in unnecessary default classifications for creditworthy buyers. This issue was significant in 80% of cases and considered severe by 40% of the interviewed factors. Notably, this is the highest percentage of factors assessing the impact of the new DoD as "severe" among all the profiles surveyed.

The statement that the new definition of default is causing a significant share of unnecessary classifications of large, financially-sound corporations as defaults due to rigid automatisms that fail to adequately consider the specificity of trade receivables is further supported by the analysis of the outflows from the PD90 status. In the first two years of application, among all exposures classified as PD90 by factoring companies in the major factoring markets, less than 2% were written off or re-classified as unlikely to pay, while the vast majority were eventually reimbursed or re-classified as performing (see Fig. 4).

Fig. 4: Outflows from PD90 status from 1/1/2021 to 31/12/2022 (update)

Outflows from PD90 status from 1/1/2021 to 31/12/2022	Outflows due to reclassification to performing status or repayment	Outflows due to write-offs or reclassification to UTP
Italy	97,6%	2,4%
Germany	98,4%	1,6%
France	99,5%	0,5%
Austria (period 12/2022 to 12/2023)	92,9%	7,1%
Spain	100,0%	0,0%
Total (aggregate)	98,3%	1,7%
For reference: UK	94,2%	5,8%

The unnecessary classifications to default are due to the fact that trade receivables are different in many ways from loans.

Although the EBA acknowledged that factoring requires a certain operational period to complete a series of activities, the current technical past due period of 30 days is unfortunately too short to give any substantial relief to the issue, as the practice demonstrates that the time lag between the due date of the invoice and the moment in which the factor can gather the information from the buyer about the status of the invoice is normally longer, considering that the factor i) cannot prosecute the buyer before the due date, ii) needs time to allocate the payments to the right invoices and detect unpaid receivables, iii) needs to activate a dialogue with the buyer or get information from the client (the seller) and iv) the debtor needs time to take the request of the factor on board, processes it and reply.

In the following sections, the aforementioned activities and the most common reasons for delays in payment of trade receivables are discussed in greater detail, including additional data analysis provided by factoring companies and some examples based on real cases of investment-grade rated companies, which can illustrate the complexity of payment behaviors in the actual situations in which factoring companies operate.

2 The dunning process of factoring companies

The specific course of the dunning process depends on the type of factoring procedure that has been contractually agreed upon and on the policy of each single factoring company. In general, however, the dunning process consists of a three-stage approach, where measures are initiated after a certain period of delay:

1. First Reminder:
 - Normally sent within 5-25 days after the due date if no matching payments have been identified. This timeframe is generally established through internal guidelines based on the factoring company's experience. Many invoices are simply paid within the first 15 days after the due date.
2. Second Reminder:
 - Sent after two weeks without a reply to the first reminder (14-15 days), along with a repeated request to pay within a certain timeframe.
3. Final Measures:
 - If the second reminder also goes unanswered, with neither an explanation for the outstanding payment nor any payment made, the factoring company will generally wait another 14 days before resorting to enforcement measures. These could include involving credit insurances, collection agencies, or initiating court proceedings.

Steps 1 and 2 are often automated.

A distinction must also be made between:

1. Cases where the factoring company carries out the dunning process alone towards the buyer.

2. Cases where the dunning process is operated by the factoring client (the supplier), acting as a trustee for the factoring company according to the terms of the factoring agreement. In the latter case, the procedure might take longer.

The creditworthiness of both the factoring client and the debtors is monitored regularly. During the dunning process, some factoring companies might check public credit information if available and adjust or cancel credit limits on the buyer where appropriate.

Delays and Responses

Buyers and sellers often take time to reply to the factoring company regarding delayed payments. Businesses are not accustomed to providing feedback on time or before the due date, even when they know an invoice will not be paid on time. They typically react only after direct contact, often replying weeks after the request—sometimes taking up to 45 days or longer. For higher amounts, policies might provide for imminent tracking and contact with the seller, requiring immediate response. However, the seller might not be immediately informed of the reasons for the delay and will need to investigate.

Common Reasons for Payment Delays

The majority of payment delays are due to objections from the buyer, such as:

- Faulty or incomplete goods
- Delays in delivery
- Price differences or negotiations
- Countercredits, credit notes or non-issued credit notes

These disputes are normally resolved through talks between the parties and rarely become formal disputes. Only when such disputes are settled can the debtor be subject to civil law consequences of late payments, including judicial enforcement of a receivable.

Other operational reasons for payment delays include:

- Invoice not yet received by the buyer
- Invoice not yet uploaded in the buyer's system
- Wrong address on the receivable (especially in the case of multinational firms with different branches)
- Incorrect due date in the buyer's system (e.g. buyers often record the due date applying payment terms from the day of reception of the invoice instead of registering the due date marked on the invoice)
- Ongoing verification processes (concluding the verification process before paying can be required by law or by the buyer's internal policies)
- Payments habitually made at the last minute that frequently result in overdue deadlines
- Debtors' internal payment schedules (some debtors make payments only in a specific period of the month, e.g. end of month, and group all the payments that became due before that period).

Factoring companies are usually not informed in advance of disputes. They learn about ongoing disputes only after initiating the dunning process and normally only when direct contact with the buyer has been established (only few buyers reply to automatic dunning letters), often weeks to 50-60 days later, depending on the buyer's responsiveness.

Why Do Suppliers Tolerate Late Payments and What Can a Factoring Company Do?

Businesses strive to avoid annoying buyers by constantly insisting on punctual payments, as this could disrupt the supply relationship. Suppliers often tolerate delays due to their dependence on the buyer, especially when they are not strategic suppliers. Payment delays are typically tolerated as long as the buyer regularly releases payments, even though late.

Verification processes for buyers are individualized and complex, involving different people at various stages. Setting appropriate payment terms is generally the responsibility of the factoring client (supplier) and their buyer (debtor), rather than the factoring company. Factoring companies often use credit insurance to limit and hedge default risks, including late payment risks. The terms of the credit insurance define when a receivable is considered in default, generally around 120 days after the due date.

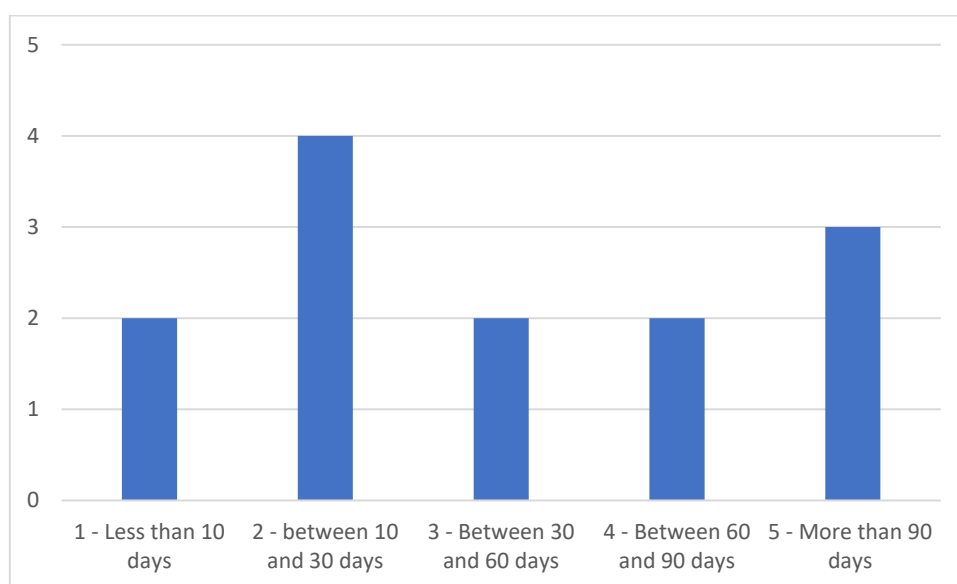
Market power also plays a role: some buyers routinely pay with delay, and adjusting payment terms might not change this behavior. Smaller sellers often lack bargaining power against larger buyers and must accept payment terms dictated by the buyers. In some industries, such as automotive, OEMs (Original Equipment Manufacturers) use their strength to impose terms on small suppliers. For some suppliers, tolerating late payments might be used as a competitive advantage to maintain the buyer relationship.

Factoring companies have limited influence over these complex situations, and their intervention can sometimes be counterproductive. While factoring can provide operational support and reduce power imbalances in receivable collections, there is a high risk of losing customers if the latter fear disruptions in their buyer relationships due to the factor's insistence. In such cases, suppliers might opt for different, possibly more expensive and riskier financial tools to preserve trade relationships.

Data on buyers' payment behavior

According to the analysed sample, the median time to collect past due invoices from such buyers (in terms of days), including the time needed to allocate the payment, stands in the range between 30 and 60 days after due date. However, replies are almost evenly distributed among the proposed ranks, reflecting significant variations in the length of the process due, in particular, to the composition of the purchased receivables portfolio and to the different reactivity of the buyers.

Fig. 5: Average number of days to collect past due invoices (after due date): frequency of replies



Some members agreed to disclose the payment practices of investment-grade rated buyers that often pay their suppliers with a delay of more than 30 days. These names reflect well-known global brands or branch of them, operating in different sectors of economic activity and based all over Europe, whose financial soundness is undisputable. The largest delays are normally due to aforementioned commercial reasons.

Fig. 6: List (non-exhaustive) of buyers that often pay suppliers more than 30 days late (industry, Country, S&P long-term issuer rating)

Retailer, Germany, A+	Automobile manufacturer, Germany, A
Automobile manufacturer, Polish branch, A-	Public transport management company, Italy, BBB
Oil & Gas company, Italy, A-	Retailer, Spanish branch, A+
Aerospace manufacturer, France, A	Automobile manufacturer, Germany, A
Retailer, Netherlands, A+	US Information technology provider, German branch, BBB
Industrial manufacturer, Germany, AA-	Industrial manufacturer, Romanian branch
Food retailer, Germany, BBB	Industrial and consumer goods manufacturer, Dutch branch, A
Consumer goods manufacturer, Italian branch, A+	US Retailer, European branch, AA-
Utility, Italy, BBB	Automobile manufacturer, USA, BB+
Automotive parts manufacturer, Hungarian branch, A	Telecom company, Italy, B+

For some of these buyers, some factoring companies also disclosed to the EUF the payment ledger of the last 18 months (1 Jan 2023-30 June 2024). From the ledgers, it's possible to see that most payments have been made with a certain delay. Although most of the payments have been made within the first 30 days after due date, many buyers show a material share of payments made more than 60 days after due date and a few of them also a significant share of payments made with more than 90 days of delay.

The largest delays reflect disputes. Disputes are not a buyer risk for the factor, since even in the case of non recourse transaction, disputed invoices might normally be sold back to the seller. However, it takes time for the factoring to be informed of the ongoing dispute. The following figures don't consider known disputed invoices.

Fig. 7: Percentage distribution of amount paid by investment grade rated buyers (1 Jan 2023-30 June 2024)

GROUP NAME	PAID ON TIME	PAID LATE 1 - 30 DAYS	PAID LATE 31 - 60 DAYS	PAID LATE 61 - 90 DAYS	PAID LATE >90 DAYS
Italian Innovative Energy Solutions Provider	2,16%	46,59%	46,58%	3,53%	1,14%
French Aerospace Manufacturer	10,48%	61,03%	21,36%	5,49%	1,64%
German Automobile Manufacturer	17,21%	72,82%	9,10%	0,58%	0,29%
Italian Public Transport Management Company	7,13%	63,85%	24,92%	2,99%	1,12%
US Industrial Manufacturer	5,84%	52,59%	37,47%	2,49%	1,61%
German Automobile Manufacturer	20,79%	66,71%	9,26%	3,08%	0,16%
German Automobile Manufacturer	36,76%	59,65%	2,53%	0,76%	0,30%
German Retailer	43,56%	50,56%	3,27%	1,25%	1,36%
Italian Aerospace Manufacturer	70,95%	28,38%	0,65%	0,00%	0,02%
Italian Utility	84,59%	11,04%	3,53%	0,29%	0,54%
US Retailer	0,00%	23,43%	37,08%	27,08%	12,40%
Italian Large Vehicle Manufacturer	0,00%	97,49%	2,51%	0,00%	0,00%
Italian Oil & Gas Company	56,59%	37,40%	6,01%	0,00%	0,00%
TOTAL	26,42%	60,99%	10,19%	1,72%	0,68%

The figures above show that all the buyers in the sample, in the analyzed period, had delays in the payment.

In terms of amount, the largest ticket (i.e. the largest face value of the invoice) are often paid with a certain delay, ranging from few days to 60 days, normally due to the combination of a more careful and meticulous verification process and of the buyer's payment schedule (with many internal policies that provides for grouping the payments at each month end).

Most of the buyers, moreover, present a “tail” of longer payments, i.e. more than 90 days after due date, normally (with a couple of notable exceptions) representing a little portion of the total value of the payments. The invoices paid with these large delays are usually those that have been disputed or where commercial objections have been raised by the buyer.

In some cases, where longer delays are shown, the complex nature of the supply might require a longer, ad hoc verification process, thus pushing the payment schedule further in time.

In addition to these figures, the EUF has gathered from its members information about the distribution of the portfolio of outstanding invoices to their buyers.

The sample is composed of 385 anonymous, individual buyers extracted from the top buyers in terms of outstanding invoices at the end of 2023, in order to assure relevance. Independently of the nationality of the factor that provided the data, the buyers included in the sample are representative of the population of European companies. The sample is split into buyers classified as performing at December, 31st 2023 (285) and a control group of buyers classified as past due over 90 days by the company (140).

Fig. 8 describes the sample in terms of number of buyers involved, split by credit rating and classification (performing / PD90), and amount of the outstanding invoices analyzed, also split by credit rating and classification.

Fig. 8: Analysis of a sample of buyers: composition of the sample

Numbers	Investment grade	Non investment grade	Unrated	Total
Buyers classified as performing	127	33	85	245
Buyers classified as past due over 90 days	22	34	84	140
Total	149	67	169	385
Amount of Outstanding Invoices	Investment grade	Non investment grade	Unrated	Total
Buyers classified as performing	4.432.811.137	451.847.896	1.178.317.511	6.062.976.544
Buyers classified as past due over 90 days	75.116.231	13.204.736	129.510.154	217.831.121
Total	4.507.927.368	465.052.632	1.307.827.666	6.280.807.666

The figures in table 8 allow to highlight some interesting findings:

- The sample showed outstanding invoices for a total value of 6,28 billion euros. 72% of the outstanding amount was made of payables of investment-grade rated buyers.

- 15,7% of buyers who were classified as past due over 90 days at the end of 2023 had an investment-grade credit rating and thus were, actually, financially healthy. This suggests that – at the very least – nearly 35% of the exposures to buyers classified as PD90 in the sample were actually misclassified.

Fig. 9: Analysis of a sample of buyers: outstanding invoices to performing buyers

Performing buyers		Investment grade companies	Non investment grade companies	Unrated
Share of buyers that show:	At least 1 invoice past due	64,57%	63,64%	84,71%
	At least 1 invoice past due by more than 30 days	50,39%	60,61%	52,94%
	At least 1 invoice past due by more than 60 days	38,58%	45,45%	40,00%
	At least 1 invoice past due by more than 90 days	27,56%	27,27%	28,24%
Average value of outstanding invoices per past due period (in % of the total outstanding)	All due invoices	8,24%	4,72%	13,33%
	Due by less than 30 days (Amount)	7,20%	5,27%	8,91%
	Due by more than 30 and less than 60 days (Amount)	0,74%	0,09%	0,24%
	Due by more than 60 and less than 90 days (Amount)	0,15%	0,17%	0,24%
	Due by more than 90 days (Amount)	0,34%	0,03%	5,07%

Fig. 10: Analysis of a sample of buyers: share of performing buyers that show:

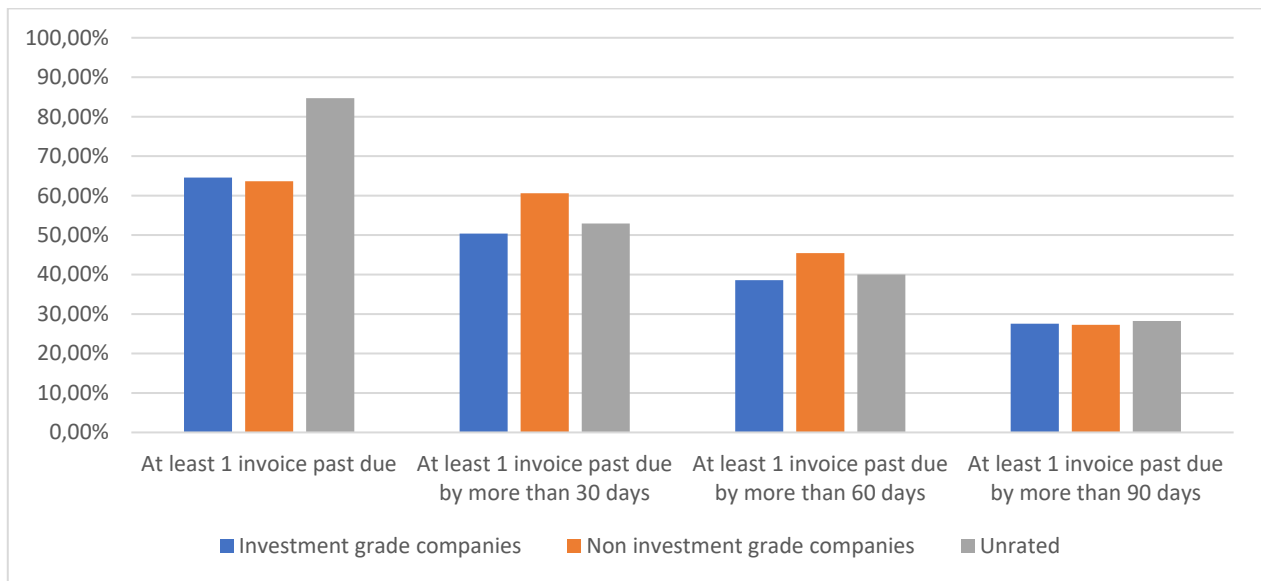


Fig. 11: Analysis of a sample of buyers: average value of outstanding invoices per past due period (in % of the total outstanding), performing buyers

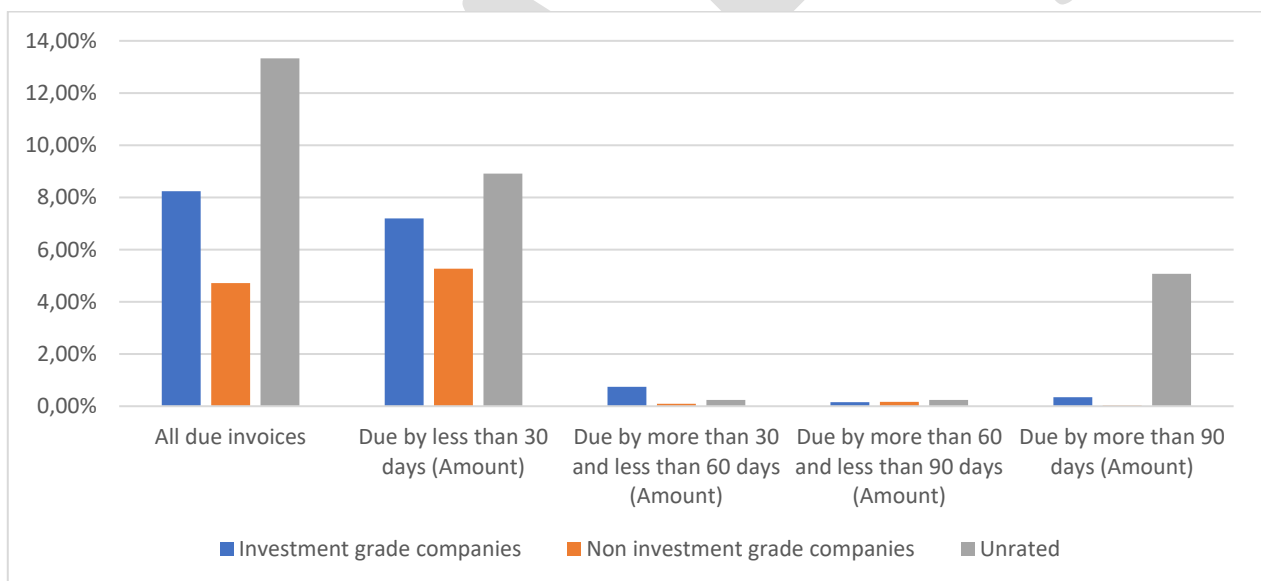


Fig. 9, 10 and 11 shows the analysis of the portfolio of receivables for the group of performing buyers. The analysis highlights the following points:

- There is no substantial difference between investment grade companies and non-investment grade or unrated companies in terms of presence of past due invoices, even when longer delays are considered.
- 65% of investment grade companies showed at least 1 invoice past due. Nearly a half of them showed at least an invoice due by more than 30 days. More than a quarter of them showed at least an invoice due by more than 90 days. While the amount of invoices due by less than

30 days is, on average, material, the amount of the invoices with longer delays is negligible (yet, those invoices could trigger default without intervention to detect a dispute).

- Non-investment grade companies show a (slightly) lower average amount of invoices past due than investment grade companies. Though seemingly unexpected, it can be attributed to the smaller size and reduced bargaining power of these companies.
- Invoices due by more than 30 days are pretty common: in fact, nearly half of the investment-grade rated sample shows some, even though in limited number and value. Since the normal course of the dunning process allows to be informed of a dispute 50-60 days after due date, under the current rule for technical past due the factoring company must twist the natural course of the dunning process to recognize dilution risk, in order to avoid misclassification to default. This effort increases dramatically the operational impact of the DoD on the factoring companies and also has operational consequences on the clients and on the respective buyers (to the detriment of the trade relationship).

A similar analysis can be carried out also for the group of buyers that have been classified as past due over 90 days.

Fig. 12: Analysis of a sample of buyers: outstanding invoices to PD90 buyers

Past due over 90 days buyers		Investment grade companies	Non investment grade companies	Unrated
Share of buyers that show:	At least 1 invoice past due	100,00%	100,00%	100,00%
	At least 1 invoice past due by more than 30 days	100,00%	88,24%	100,00%
	At least 1 invoice past due by more than 60 days	54,55%	88,24%	95,24%
	At least 1 invoice past due by more than 90 days	54,55%	73,53%	95,24%
Average value of outstanding invoices per past due period (in % of the total outstanding)	All due invoices	43,72%	94,12%	56,09%
	Due by less than 30 days (Amount)	14,25%	14,93%	7,40%
	Due by more than 30 and less than 60 days (Amount)	2,67%	0,82%	3,69%
	Due by more than 60 and less than 90 days (Amount)	1,02%	13,14%	2,29%
	Due by more than 90 days (Amount)	25,78%	67,24%	44,80%

Fig. 13: Analysis of a sample of buyers: share of PD90 buyers that show:

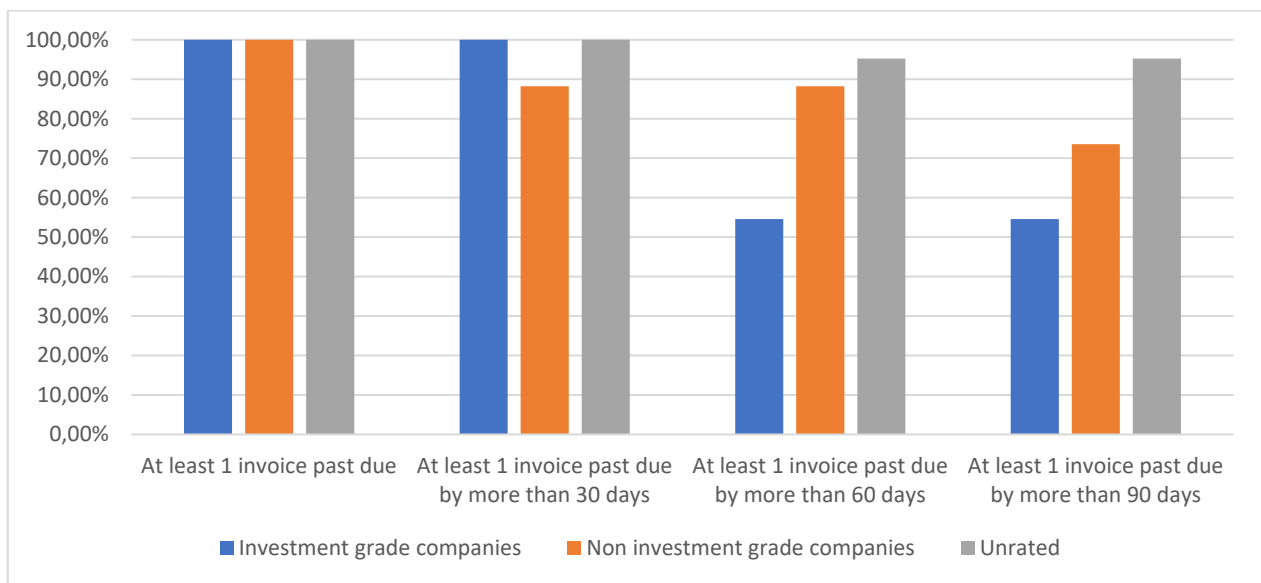


Fig. 14: Analysis of a sample of buyers: average value of outstanding invoices per past due period (in % of the total outstanding), PD90 buyers

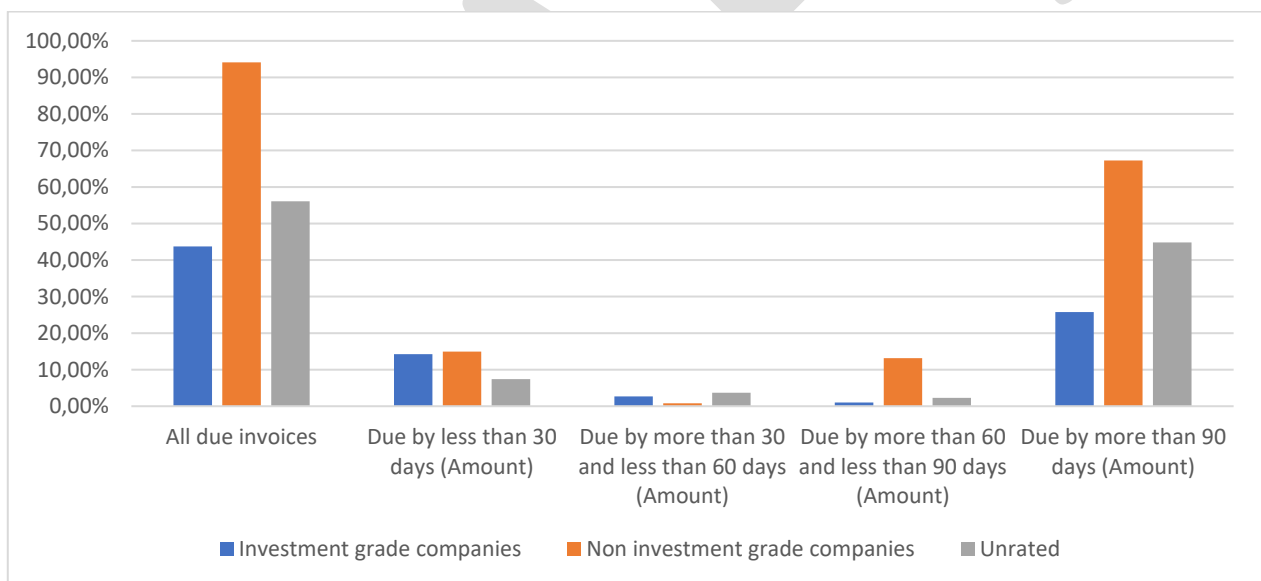


Fig. 12, 13 and 14 shows the analysis of the portfolio of receivables for the group of buyers classified as past due over 90 days. The analysis highlights the following points:

- The share of investment-grade companies that shows significant delays is higher than in the sample of performing buyers (ca 2x).
- While in the case of performing buyers there weren't material differences among the three groups (investment grade, non-investment grade, unrated), in the case of PD90 buyers such differences are material: e.g. 55% of the investment-grade rated buyers show at least one invoice due by more than 90 days, against 73,5% of non-investment grade and 95% of unrated companies.

- In the case of non-investment grade and unrated companies, this high share of companies presenting very large delays is also reflected in a much higher average share of the oldest invoices in terms of value.
- Such average is much lower in the case of investment-grade rating buyers. Since their creditworthiness is considered indisputable (even though they show large delays more frequently than the performing ones, that could reflect the peculiarity of the supply chain and the complexity of the supplied goods – see also Fig. 7), the classification to default is mostly due, for these companies, to the inability to inform the factoring company about the dispute regarding the invoices within the tight timeframe provided by the current framework (30 days).

Thanks to the availability of some members, EUF is able to provide also some interesting case studies, built on the basis of the real-life ledger of the involved companies.

Case 1 (see Annex 1 for more details and figures)

- The company is the European branch of one of the largest corporations in the world, operating in the Retail Sector, and has a very high credit rating.
- The analyzed case is a 1-to-1 supplier-buyer relationship.
- Despite the undisputable financial health of the company, in the period of analysis no invoice has been paid on time by the company.
- Payment terms are already quite long (median 107 days) and actual payments take, mostly, more than 160 days.
- The average delay is 59 days, and the median delay is 60, with very close quartiles (59-61): that means that the company pays its payables to this supplier with a “regular” delay of 2 months (with few exceptions).
- Payments are grouped at month end. Although there is a material share of invoice paid with more than 90 days of delay, they are not visible in the evolution of the outstanding amount since they are normally paid the day after the 90th day of delay.
- According to the analyzed ledger, the company would be soon classified as default since its payments are always late.

Case 2 (see Annex 2 for more details and figures)

- The company is a listed corporation in Italy, operating in the aerospace manufacturing and defense sector. It has an investment-grade rating.
- The analyzed case involves 9 different supplier-buyer relationship, showing the complexity of the real-life case (the factor will normally purchase receivables on the same buyer from more suppliers).
- The company is, overall, a pretty good payer. The median delay of more than 15.000 of invoices is just 2 days. The company often pays in advance. Despite that, in the period of analysis the company has paid some invoices more than 90 days late.
- The invoices with the largest tickers are paid late, mostly in the range between 40 and 50 days of delay. This reflects the complexity of the goods sold and the need for a more accurate and longer verification process.

- The company behave differently with the various suppliers: some are normally paid on time, some with a certain average delay.
- According to the analyzed ledger, the company would not be classified as default considering all the invoices.
- However, the counting of the days past due changes in the scenario in which individual supplier-buyer relationships are taken into consideration, since the different behavior with respect to each supplier would bring to different outcomes on the same buyer (in other words, a factor purchasing only the receivables issued by one specific supplier would classify the company as default, while another factor purchasing the receivables from the other suppliers would classify the company as performing).

Estimate of the impact of a change in the Technical Default for factoring

The data collected allow, with some assumptions, also to understand what could be the impact of a change in the policy regarding the technical past due as provided in par. 23.d of the EBA Guidelines on the definition of default, namely the extension from 30 to 90 days of the technical default period.

Although it is not possible to re-elaborate the whole daily time series of the thresholds for all the debtors included in the sample to make the comparison, a possible proxy could be:

- extracting the buyers whose outstanding past due invoices at end of year 2023 exceeds 1% of the total outstanding value (the absolute threshold would be considered as exceeded by definition);
- among them, extracting those that show at least 1 invoice due by more than 30 days and then, separately, those that show at least 1 invoice due by more than 90 days.

It is important to note that this exercise cannot consider the impact of the recognition of dilution risk as specified in the CRR and in paragraphs 29 and 30 of the Guidelines, that is distinct from default risk and are not considered events of default. Therefore, this exercise also includes buyers that are not actually classified as past due. In other words, it reflects the scenario in which the factoring companies is not active in acquiring information on the reasons behind the delay.

The exercise involves only Investment-grade rated buyers, since it is assumed that, for this group, the classification to default due to past due purchased invoices within a factoring transaction is not warranted as they are considered of proven creditworthiness.

Fig. 15: Estimate of the reduction of classification errors

Investment-grade rated buyers	Buyers with past due invoices > 1% AND at least 1 invoice du by more than 30 days	Buyers with past due invoices > 1% AND at least 1 invoice du by more than 90 days	Estimate of the reduction of classification errors
Performing	53	25	-52,83%
Past due over 90 days	22	12	-45,45%
Total	75	37	-50,67%

Important note! This table doesn't consider the impact of the recognition of dilution risk in avoiding misclassification to default

According to Fig. 15 , the extension of the technical past due days provides a clear impact in terms of reduction of possible wrong classification to default: overall, more than a half of unwarranted classification would be instantly avoided. Interestingly, the reduction is not significantly different between the performing and the PD90 group. The EUF also expects the real benefit to be much higher than this estimate thanks to the treatment of dilution risk.

Conclusions

Suppliers often tolerate late payments from large corporations due to dependence on those buyers, market power imbalances, and the need to avoid relationship disruption. Operational complexities, in particular on the buyer's side, also contribute to this tolerance.

The factoring company, even when it accepts to take the credit risk on the buyer, is not actively involved in this relationship and, when carrying out the dunning process on behalf of the client, must be careful to avoid any possible disruption.

The current rule provided in the EBA Guidelines for the definition of default, although it recognizes partially the specificity of purchased receivables, is too tight to allow the factors to carry out the process in a natural way. Thus, it results in significant, unnecessary operational stress both for the factoring and the parties involved in order to avoid unwarranted classification of large and healthy corporations to default in consequence of its late payments. Moreover, it might bring to inconsistencies in the classification of the same buyer depending on the suppliers who sell the receivables to the factor, since the payment behavior of the same company varies in respect of each supplier.

The data gathered by the EUF show how late payments are normal even among investment-grade rated companies, but in these cases are obviously due to commercial and organizational reasons and not to financial difficulties. In all cases, a significant effort is required to the factoring company to twist the dunning process and acquire information on the past due invoices in a very tight timeframe. In some cases, this doesn't work out and the investment-grade company is eventually classified as default, with consequences also on the group exposure to that buyer. Real-life examples provided in this note show further proof of these biases.

The analysis of the EUF suggests that increasing the technical past due period provided in par. 23.d of the Guidelines from 30 to 90 days would significantly reduce the unwarranted classifications to default and give time to identify and address the real problematic invoices.

Moreover, that would provide invaluable benefits for the factors in terms of:

- ability to focus the dunning efforts only on the invoices that really needs the factor's attention and on the more reticent buyers;
- strong efficiency improvement, as, conversely, the factor wouldn't need to chase invoices that will be paid in any case soon after the due date;
- improvements in the relationship with the clients and their buyers, thanks to a more natural course of the dunning process;
- improvements in the relationship with the mother banks (for those that are part of a banking group), thanks to a lower risk of unnecessary contagion of the group exposures to the buyers.

Therefore, the EUF strongly advise the EBA to bank on the experience of the first years of application and consider taking the opportunity of the update of the Guidelines to **improve the risk-sensitiveness of the definition of default for purchased receivables through an amendment to par 23.d which introduce a 90 days technical past due period.**

Annex 1:

Case Study: US Retailer, European Branch

Explanations and evidences

- The company is one of the largest corporations in the world and has a very high credit rating.
- The analyzed case is a 1-to-1 supplier-buyer relationship.
- Despite the undisputable financial health of the company, in the period of analysis no invoice has been paid on time by the company.
- Payment terms are already quite long (median 107 days) and actual payments take, mostly, more than 160 days.
- The average delay is 59 days, and the median delay is 60, with very close quartiles (59-61): that means that the company pays its payables to this supplier with a “regular” delay of 2 months (with few exceptions).
- Payments are grouped at month end. Although there is a material share of invoice paid with more than 90 days of delay, they are not visible in the evolution of the outstanding amount since they are normally paid the day after the 90th day of delay.
- According to the analyzed ledger, the company would be soon classified as default since its payments are always late.

1. General information

Credit rating S&P:	AA-
Time period of the analysis:	1 Jan 2023 – 21 May 2024
Number of suppliers:	1
Number of invoices assigned to the factoring company:	1.961
<i>Of which paid on time:</i>	0
<i>Of which paid late:</i>	1.961
Total value of invoice assigned to the factoring company	€ 7.638.968,34
<i>Of which paid on time:</i>	€ 0
<i>Of which paid late:</i>	€ 7.638.968,34

2. Information on payments

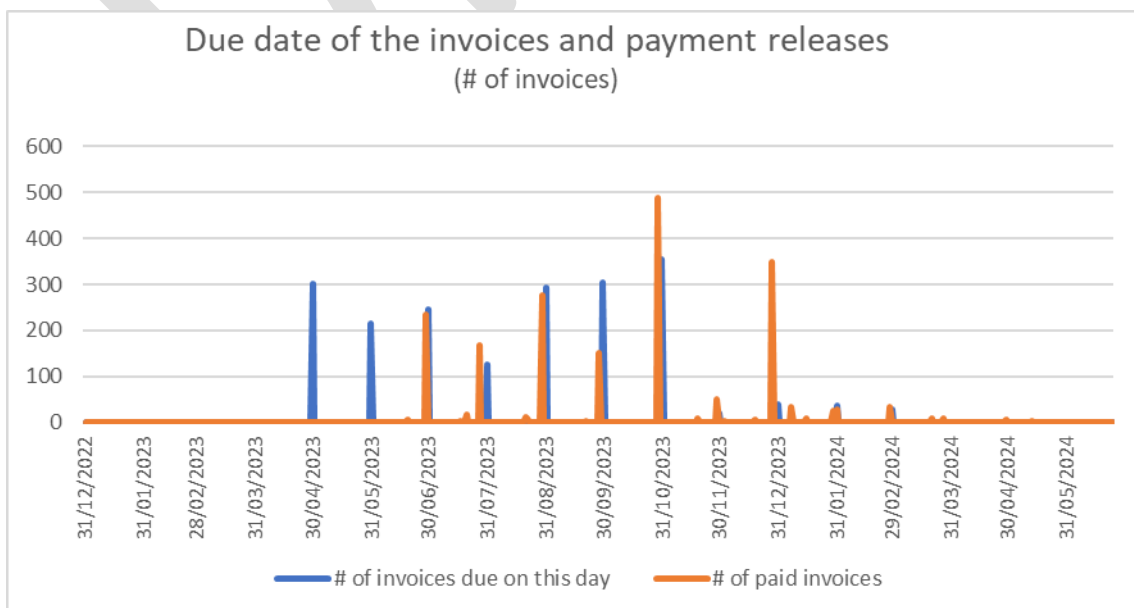
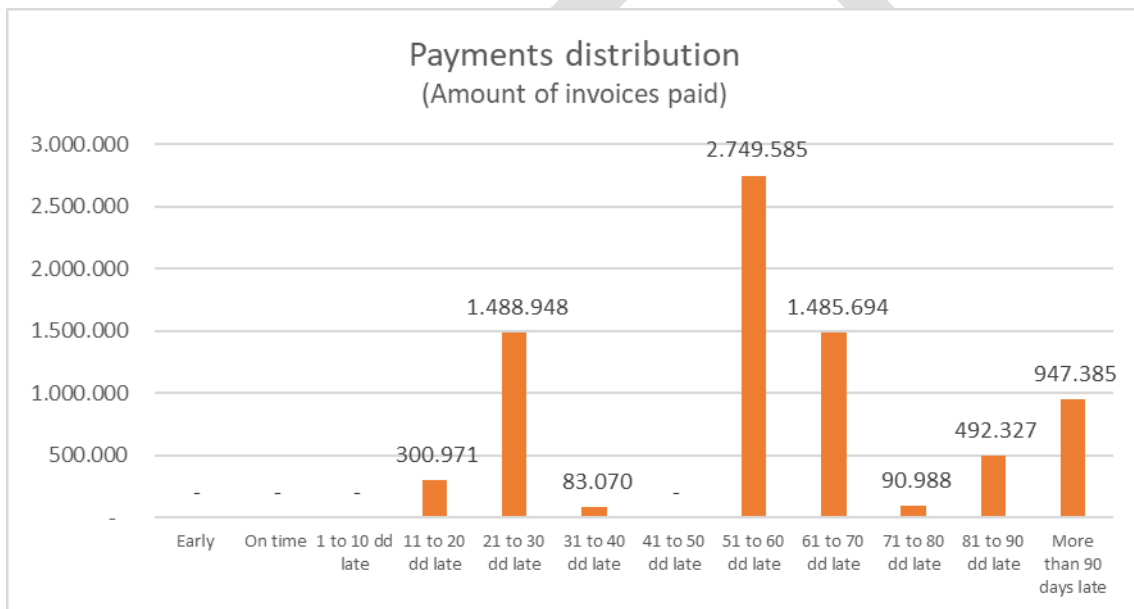
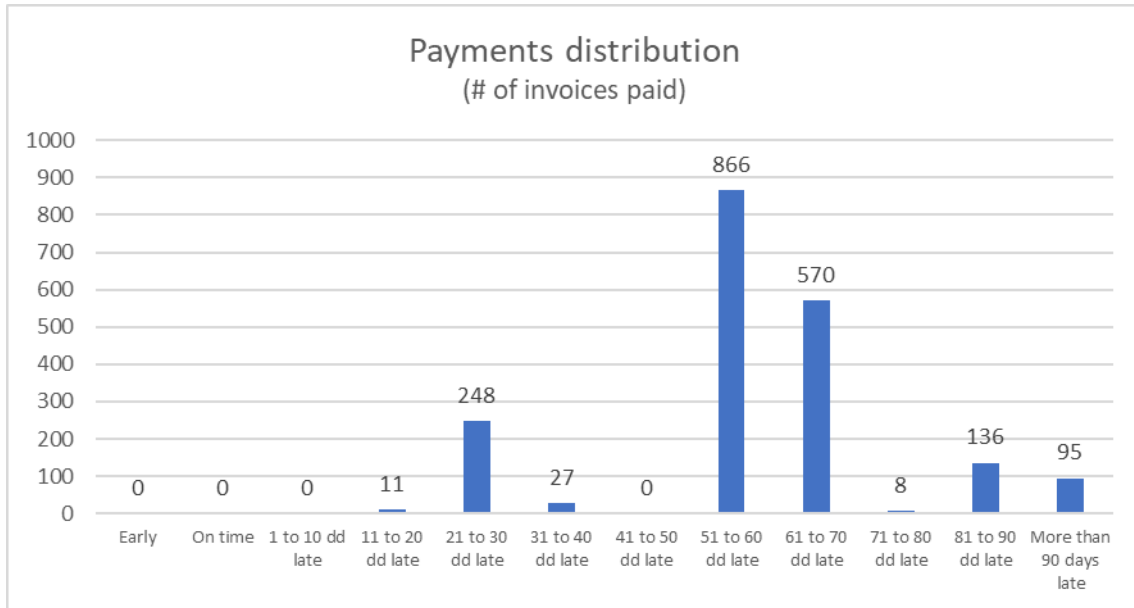
	All invoices	Only invoices paid late
Average nominal payment terms (in days)	105,51	105,51
Min	89	89
25 pctl	100	100
Median	107	107
75pct	111	111
Max	119	119

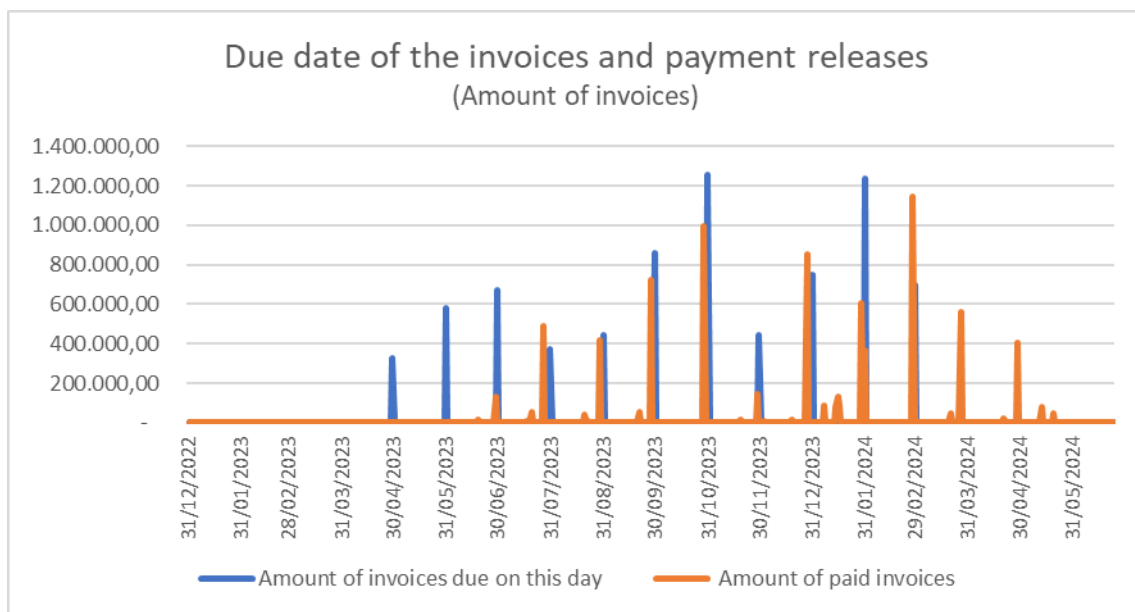
	All invoices	Only invoices paid late
Average actual payment terms (in days)	164,53	164,53
Min	110	110
25 pctl	159	159
Median	168	168
75pct	175	175
Max	207	207

	All invoices	Only invoices paid late
Average delay (in days)	59,03	59,03
Min	15	15
25 pctl	59	59
Median	60	60
75pct	61	61
Max	112	112

3. Distribution of payments

Range	Frequency	Amount	% of invoices	% of paid amount	average ticket
Early	0	-	0,00%	0,00%	-
On time	0	-	0,00%	0,00%	-
1 to 10 dd late	0	-	0,00%	0,00%	-
11 to 20 dd late	11	300.971	0,55%	3,94%	27.361
21 to 30 dd late	248	1.488.948	12,39%	19,49%	6.004
31 to 40 dd late	27	83.070	1,35%	1,09%	3.077
41 to 50 dd late	0	-	0,00%	0,00%	-
51 to 60 dd late	866	2.749.585	43,28%	35,99%	3.175
61 to 70 dd late	570	1.485.694	28,49%	19,45%	2.606
71 to 80 dd late	8	90.988	0,40%	1,19%	11.374
81 to 90 dd late	136	492.327	6,80%	6,44%	3.620
More than 90 days late	95	947.385	6,75%	12,40%	7.018

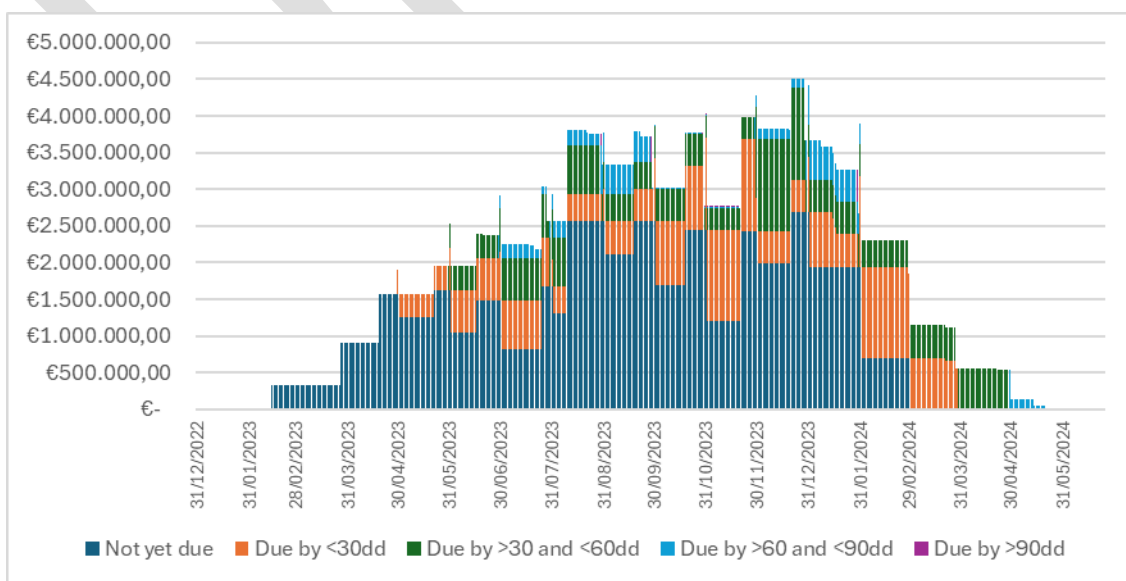




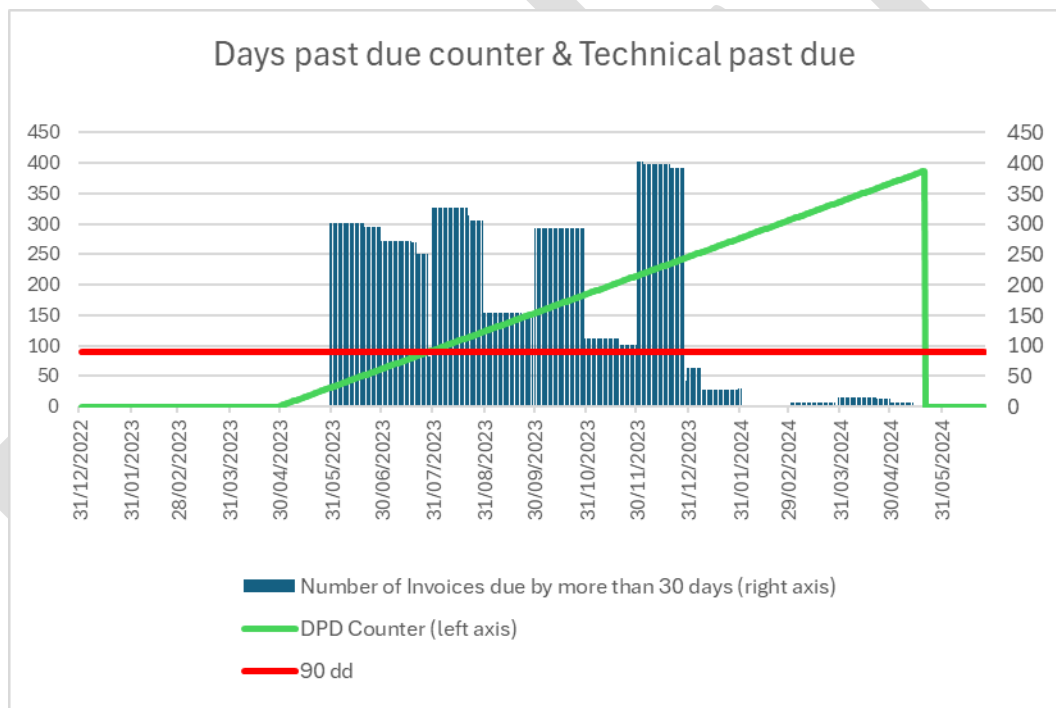
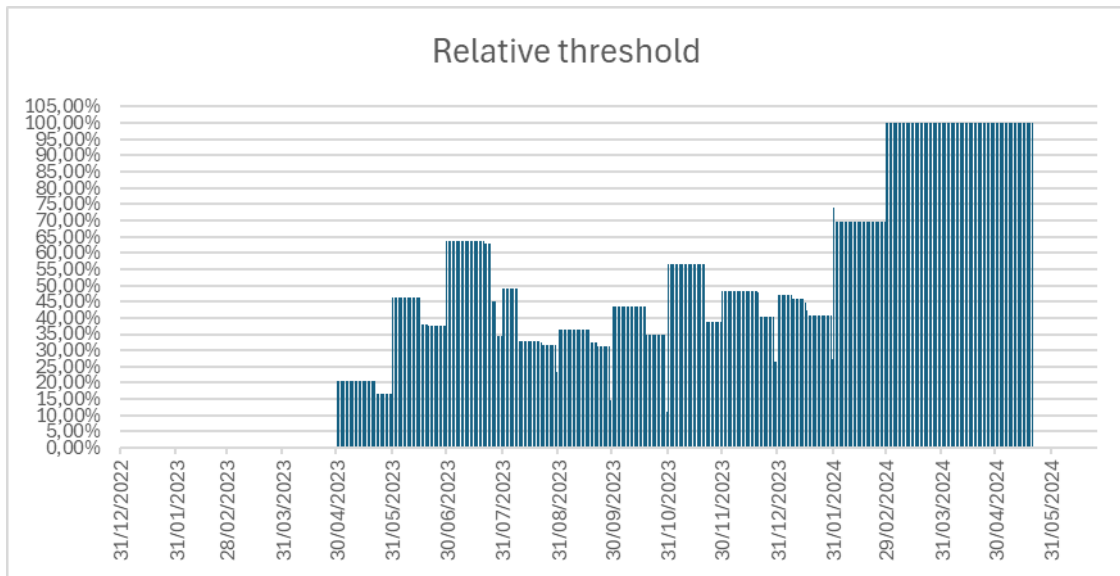
4. Suppliers

Suppliers ID	Average nominal payment term	Average actual payment period	Average Delay	Average ticket
1	105,507	164,535	59,028	3.895,45

5. Outstanding receivable over time



6. Calculation of the thresholds and counter of days past due



How to read this chart:

The green line represents the evolution over time of the Days past due counter which increases every day that the relative threshold is exceeded.

The blue bars represent the number of invoices that are past due over 30 days.

The red line represents 90 days.

The buyer would be classified as default when the green line crossed the red line and there is a blue bar on that day.

Annex 2:

Case Study: Italian Aerospace Manufacturer

Explanations and evidences

- The company is a listed corporation in Italy, operating in the defense sector. It has an investment-grade rating.
- The analyzed case involves 9 different supplier-buyer relationship, showing the complexity of the real-life case (the factor will normally purchase receivables on the same buyer from more suppliers).
- The company is, overall, a pretty good payer. The median delay of more than 15.000 invoices is just 2 days. The company often pays in advance. Despite that, in the period of analysis the company has paid some invoices more than 90 days late.
- The invoices with the largest tickers are paid late, mostly in the range between 40 and 50 days of delay. This reflects the complexity of the goods sold and the need for a more accurate and longer verification process.
- The company behave differently with the various suppliers: some are normally paid on time, some with a certain average delay.
- According to the analyzed ledger, the company would not be classified as default considering all the invoices.
- However, the counting of the days past due changes in the scenario in which individual supplier-buyer relationships are taken into consideration, since the different behavior with respect to each supplier would bring to different outcomes on the same buyer (in other words, a factor purchasing only the receivables issued by one specific supplier would classify the company as default, while another factor purchasing the receivables from the other suppliers would classify the company as performing).

1. General information

Credit rating S&P:	BBB-
Time period of the analysis:	1 Jan 2023 – 21 May 2024
Number of suppliers:	9
Number of invoices assigned to the factoring company:	15.846
<i>Of which paid on time:</i>	6.316
<i>Of which paid late:</i>	9.530
Total value of invoice assigned to the factoring company	€ 115.575.982,30
<i>Of which paid on time:</i>	€ 82.000.621,52
<i>Of which paid late:</i>	€ 33.575.360,78

2. Information on payments

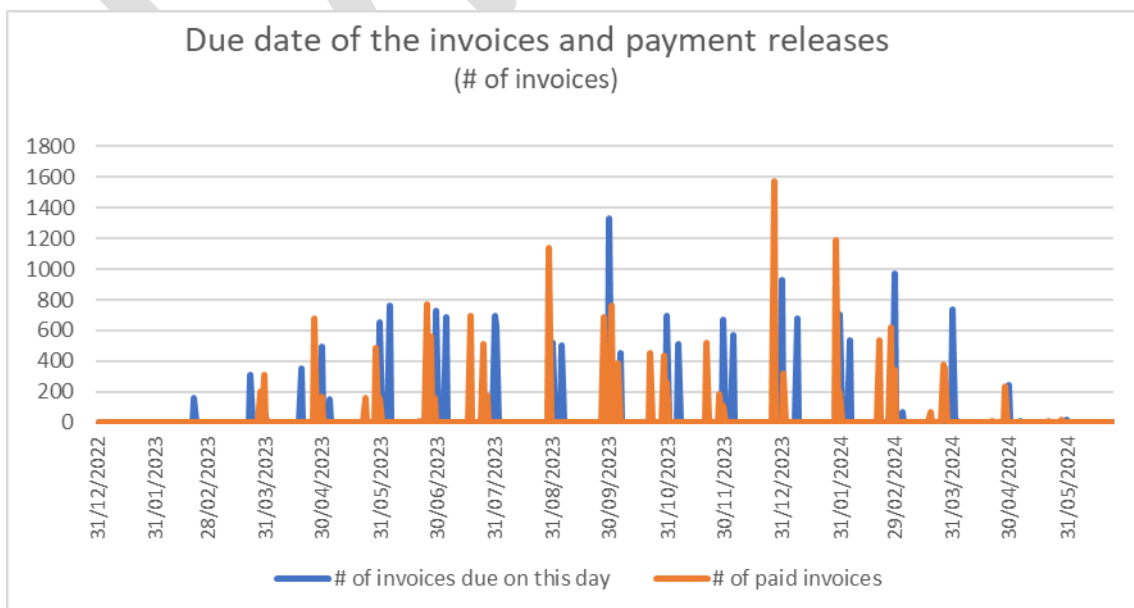
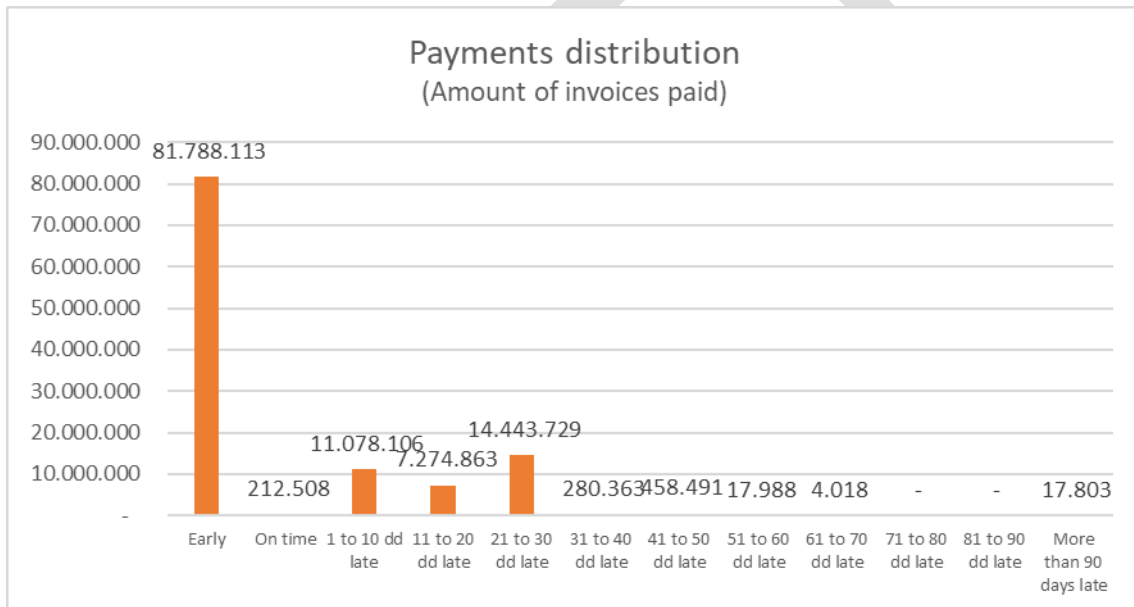
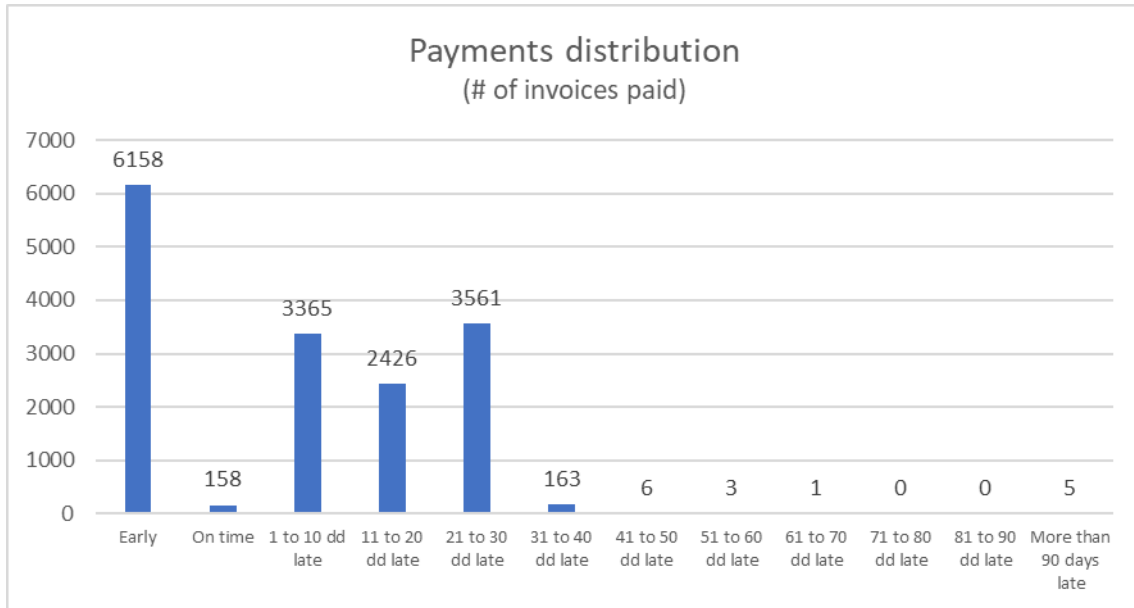
	All invoices	Only invoices paid late
Average nominal payment terms (in days)	84,12	84,12
Min	6	6
25 pctile	39	39
Median	92	92
75pct	109	109
Max	470	470

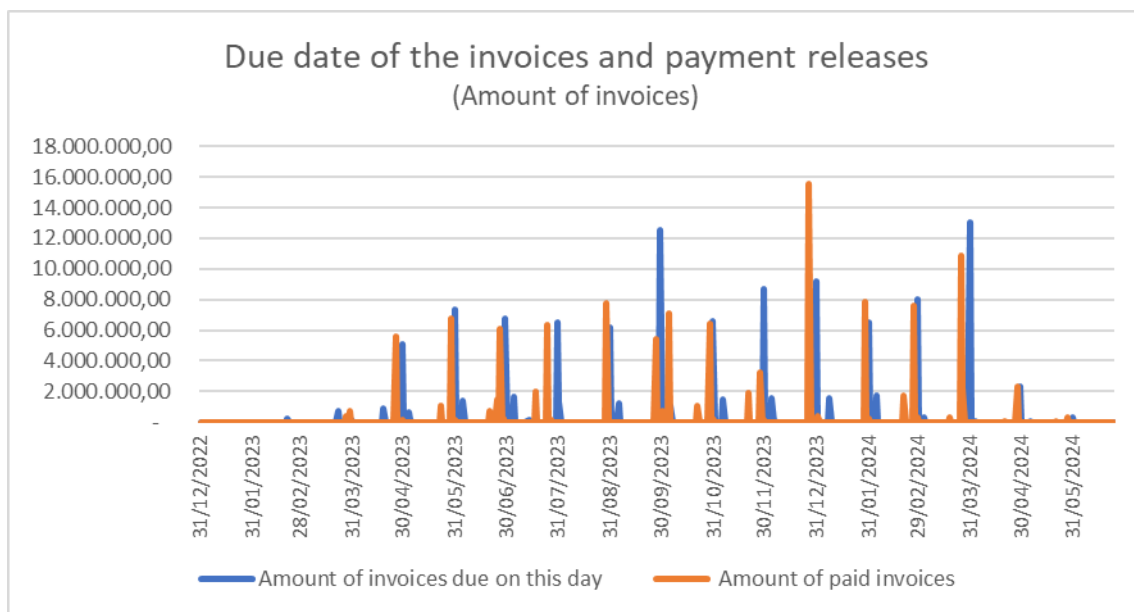
	All invoices	Only invoices paid late
Average actual payment terms (in days)	92,28	92,28
Min	27	27
25 pctile	61	61
Median	92	92
75pct	112	112
Max	469	469

	All invoices	Only invoices paid late
Average delay (in days)	8,16	14,98
Min	-57	1
25 pctile	-1	6
Median	2	17
75pct	17	22
Max	213	213

3. Distribution of payments

Range	Frequency	Amount		% of invoices	% of paid amount	average ticket
Early	6158	81.788.113		38,86%	70,77%	13.282
On time	158	212.508		1,00%	0,18%	1.345
1 to 10 dd late	3365	11.078.106		21,24%	9,59%	3.292
11 to 20 dd late	2426	7.274.863		15,31%	6,29%	2.999
21 to 30 dd late	3561	14.443.729		22,47%	12,50%	4.056
31 to 40 dd late	163	280.363		1,03%	0,24%	1.720
41 to 50 dd late	6	458.491		0,04%	0,40%	76.415
51 to 60 dd late	3	17.988		0,02%	0,02%	5.996
61 to 70 dd late	1	4.018		0,01%	0,00%	4.018
71 to 80 dd late	0	-		0,00%	0,00%	-
81 to 90 dd late	0	-		0,00%	0,00%	-
More than 90 days late	5	17.803		0,03%	0,02%	3.561





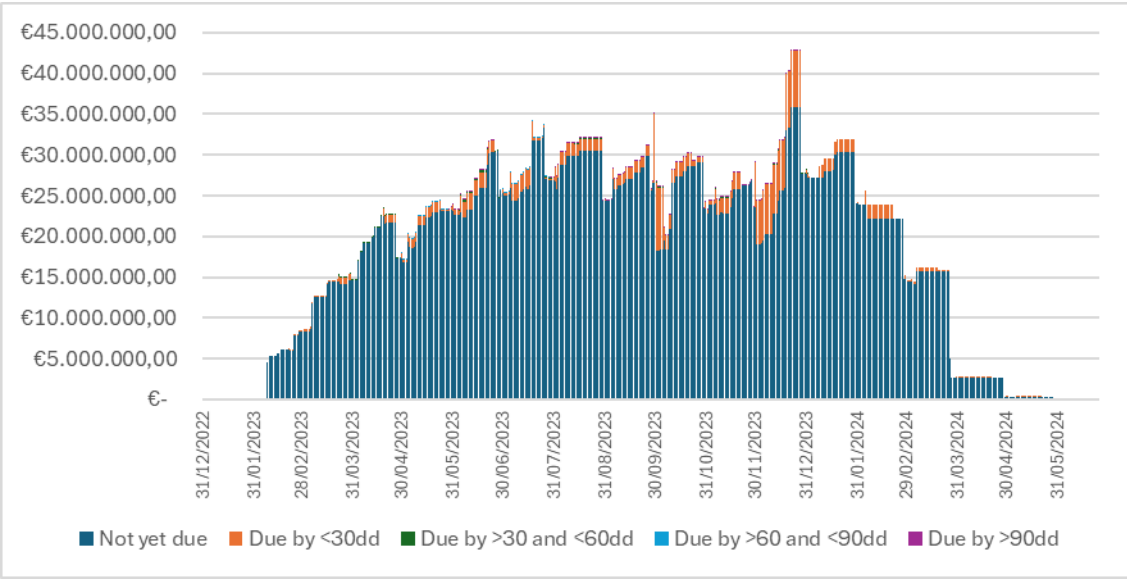
4. Suppliers

Suppliers ID	Average nominal payment term	Average actual payment period	Average Delay	Average ticket
1	116,247	116,420	0,173	11.724,29
2	45,502	65,131	19,629	1.467,95
3	77,000	100,515	23,515	53.456,69
4	98,529	117,265	18,735	48.955,61
5	62,280	80,604	18,324	8.404,96
6	104,719	103,072	-1,647	4.243,82
7	107,365	109,583	2,218	16.687,99
8	117,618	117,904	0,285	56.083,68
9	97,689	98,513	0,824	996,92

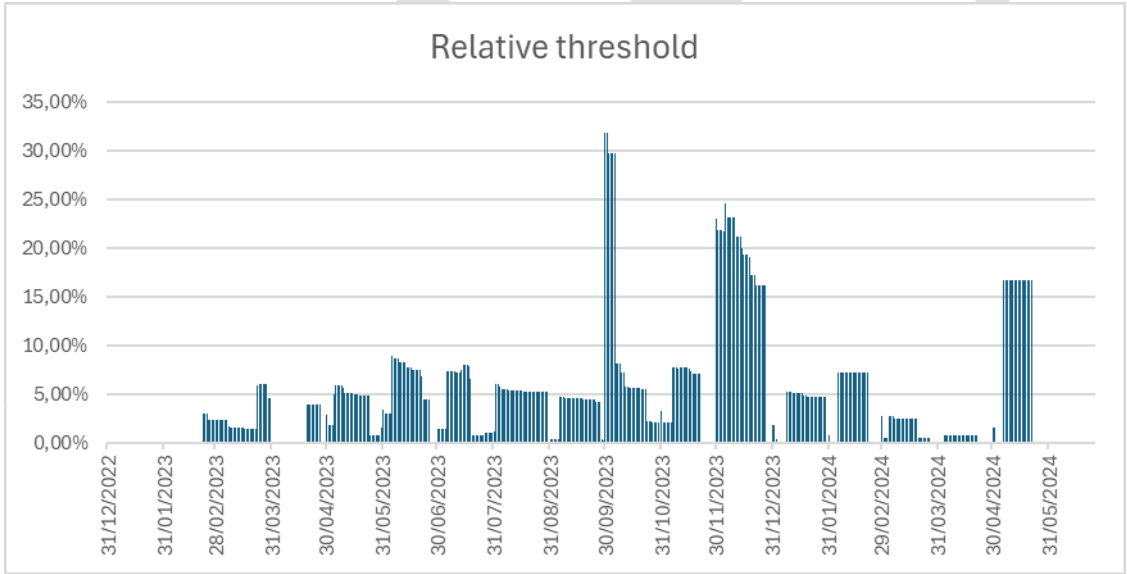
The table shows the different behavior of the company with the different suppliers, both in terms of negotiating nominal payment terms and in actual payments.

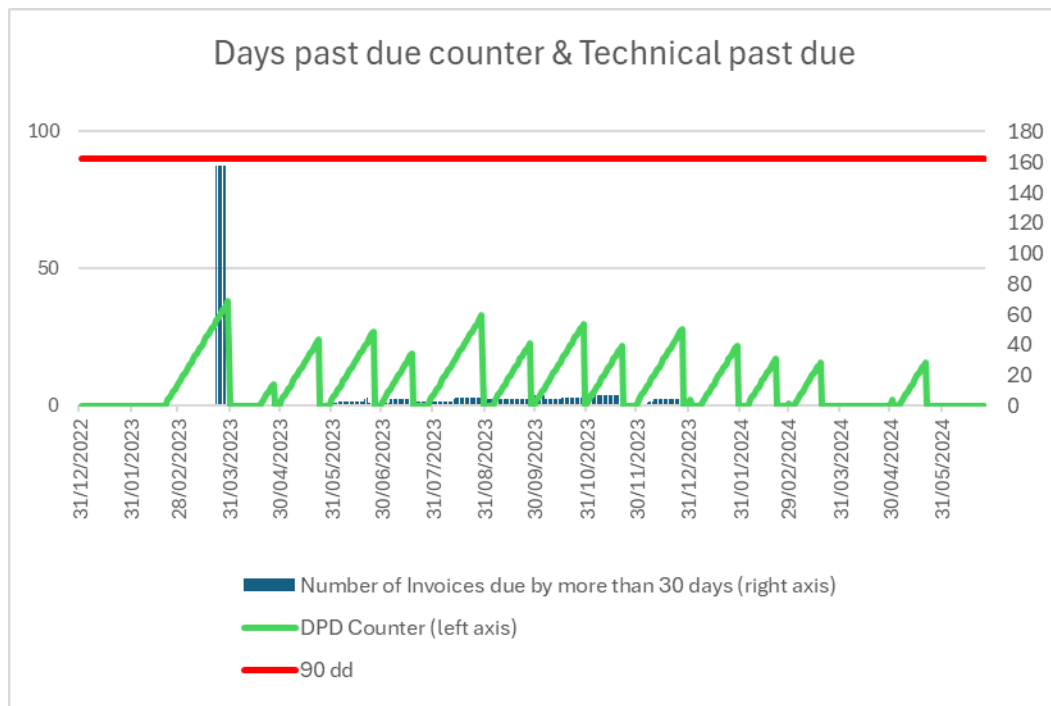
In subsection 7 below we show, for Supplier 2, 3 and 4, how these differences impact on the calculation of the days past due under the current rule even though the average delay is very close among them.

5. Outstanding receivable over time



6. Calculation of the thresholds and counter of days past due





How to read this chart:

The green line represents the evolution over time of the Days past due counter which increases every day that the relative threshold is exceeded.

The blue bars represent the number of invoices that are past due over 30 days.

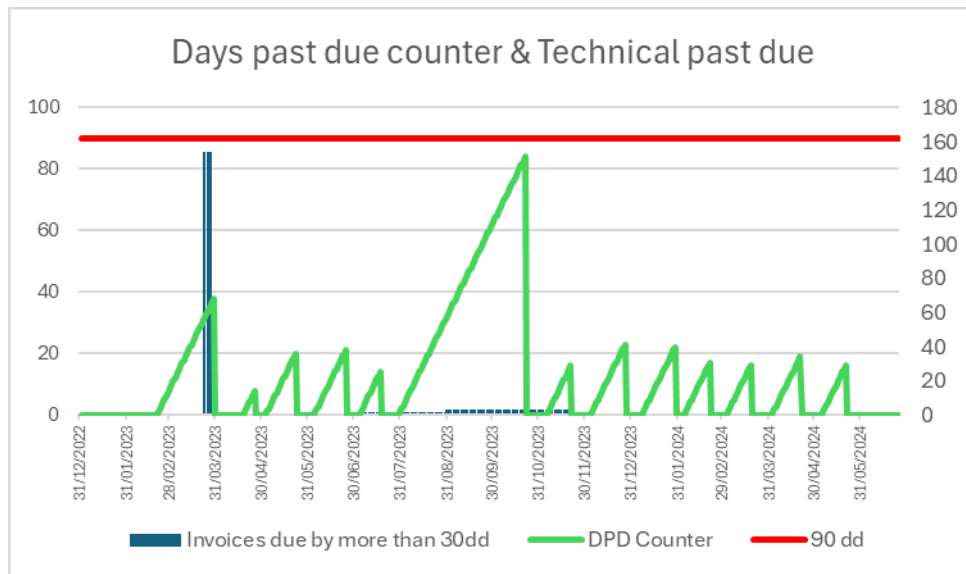
The red line represents 90 days.

The buyer would be classified as default when the green line crossed the red line and there is a blue bar on that day.

7. Calculation of the thresholds and counter of days past due for specific suppliers

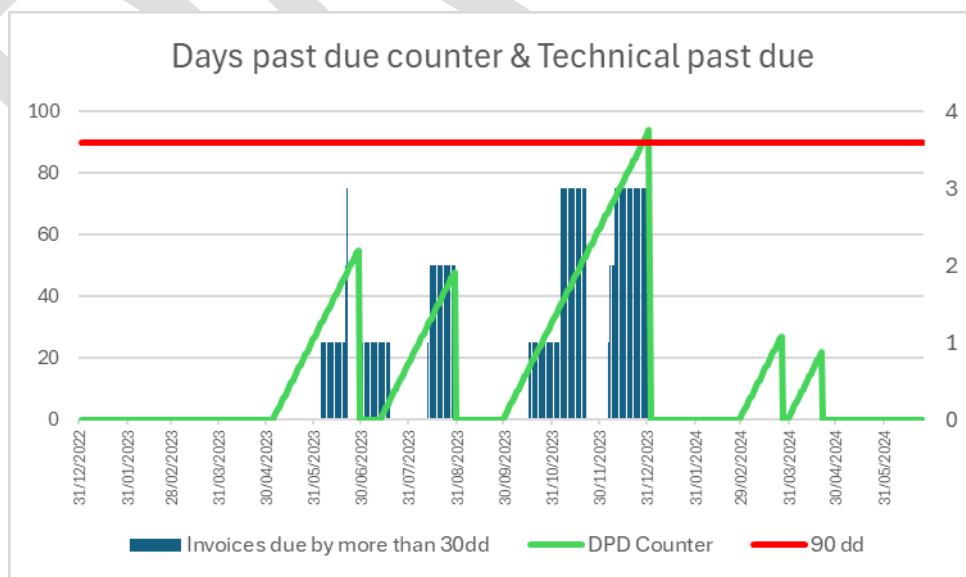
In this section we show the outcomes of different scenarios where the factor purchases receivables to the company only from one supplier. This shows the different outcomes of the DoD rule on the same company depending on the different behavior of that company towards its suppliers.

Supplier 2



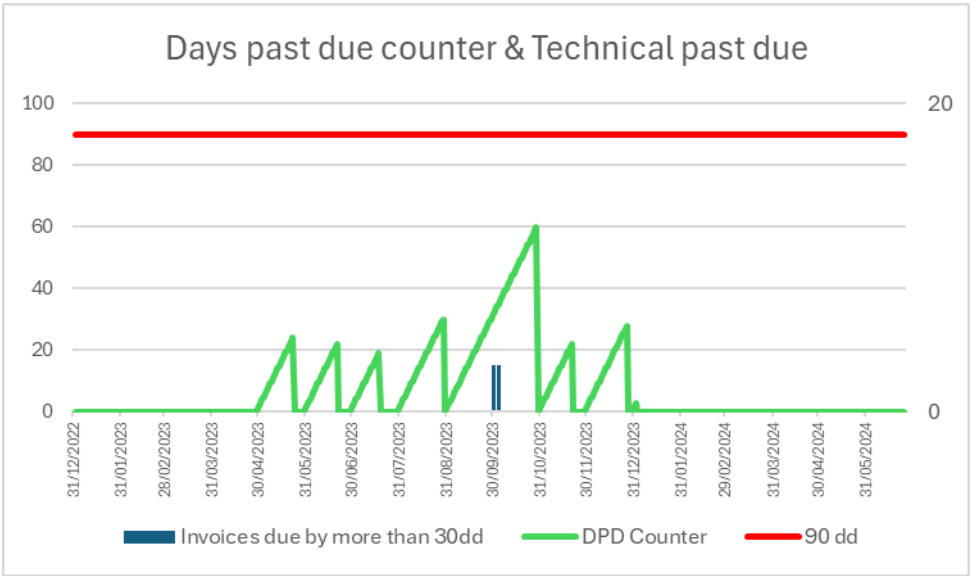
The company would NOT have been classified as default in relation to the invoices assigned by Supplier 2 (but it was close).

Supplier 3



The company would have been classified as default in relation to the invoices assigned by Supplier 3.

Supplier 4



The company would NOT have been classified as default in relation to the invoices assigned by Supplier 4.

The example above shows that the current rule on the counting of days past due for purchased receivables could bring to inconsistent classification of the same buyer among different factors.