

CIRCOLARE INFORMATIVA 71/24

Milano, 28 novembre 2024

OGGETTO: EUF Newsletter Autumn 2024

Si informa che l'EUF ha pubblicato sul proprio sito il numero autunnale della propria newsletter. La newsletter, allegata per pronto riferimento, è disponibile sul sito dell'EUF: www.euf.eu.com

Si ricorda che il presente documento è pubblicato nell'Area "Le Circolari" dell'Area Riservata del sito associativo: <https://areariservata.assifact.it>.

Cordiali saluti

 Il Segretario Generale
 Alessandro Carretta

DISTRIBUZIONE:

ASSOCIATI ORDINARI E CORRISPONDENTI			
AOSTA FACTOR	Alessandro BERTOLDO	EXPRIVIA	Dario GRECO
BANCA CF+	DIREZIONE GENERALE Michele RONCHI	FACTORCOOP	Franco TAPPARO
BANCA DEL FUCINO	DIREZIONE GENERALE Stefano CUPPERI	FACTORIT	Fabio BOLLINI
BANCA IFIS	Andrea BERNA Alberto STACCIONE	FERCREDIT	Stefano PIERINI
BANCA MONTE DEI PASCHI DI SIENA	Carmelo GIAN SIRACUSA	FIDIS	Andrea FAINA
BANCA PROGETTO	Giorgio GRAZIANI Giuseppe PIGNATELLI	GENERALFINANCE	Massimo GIANOLLI
BANCA SISTEMA	Andrea TRUPIA	GUBER BANCA	DIREZIONE GENERALE Simone PORCELLATI
BANCA VALSABBINA	DIREZIONE GENERALE Antonio ARMILLOTTA	IFITALIA	Chiara BRACCI
BANCO DI DESIO E DELLA BRIANZA	Davide TOGNETTI	ILLIMITY BANK	Franco MARCARINI
BARCLAYS BANK IRELAND	Alessandro RICCO	INTESA SANPAOLO	Anna CARBONELLI
BCC FACTORING	Paolo IACHETTINI	ISTITUTO PER IL CREDITO SPORTIVO E CULTURALE	DIREZIONE GENERALE Alfonso IAQUINANDI
BFF BANK	Massimiliano BELINGHERI	MBFACTA	Enrico BUZZONI
BPER FACTOR	Matteo BIGARELLI Vittorio GIUSTINIANI	MCC FACTOR	DIREZIONE GENERALE Alberto ROMANI
BURGO FACTOR	Luca BERTINI	SACE FCT	Daniele SCHRODER
CLESSIDRA FACTORING	Gabriele PICCINI Keoma GARBILLO	SG FACTORING	Sylvain LOISEAU
CREDEMFACTOR	Gabriele DECO'	UNICREDIT FACTORING	Daniela FERRARI
CREDIT AGRICOLE FACTORING	Ivan TOMASSI		
ASSOCIATI SOSTENITORI			
AGENZIA ITALIA	Lorenzo BAGGIO	LENDSCAPE	Kevin DAY
BENEFIND	Alessandro CICCHI	LEXANT SOCIETA' BENEFIT TRA AVVOCATI	Andrea ARNALDI
CODIX	Laurent TABOUELLE	QUALCO	Marco COZZI
FINWAVE	Willy BURKHARDT	SCIUME' LEGAL & TAX	Nicola NUNZIATA
FS2A	Francesco SACCHI	SEFIN	Claudia NEGRI
GIOVANARDI STUDIO LEGALE	Cecilia LAMPERTICO	STUDIO LEGALE FUMAGALLI, GRANDO e ASSOCIATI	Francesco LOI
K LINX	Mario FARRIS	STUDIO LEGALE LUPI E ASSOCIATI	Massimo LUPI
LA SCALA SOCIETA' TRA AVVOCATI	Luciana CIPOLLA	STUDIO LEGALE RAI A & PARTNERS	Domenico RAI A
LEGALI RIUNITI LEX AVVOCATI ASSOCIATI	Gianluca LEOTTA		



Connecting and Supporting the Commercial Finance Industry Worldwide

Contents:

Welcome

Fausto Galmarini
EUF Chairman

2

What's going on in the EUF Legal Committee?

Magdalena Wessel
Chair of the Legal Committee

4

IH 2024 EU Factoring figures - First signs of growth slowdown

Magdalena Ciechomska-Barczak
Chair of the Economics and Statistics Committee

6

A New representative at the ESG Committee

Antoine de Chabot
Chair of the ESG Committee

10

Factoring and Prudential Regulation: Aligning Risk Sensitivity with Business Realities

Diego Tavecchia
Chair of the PRC Committee

12



Welcome from Fausto Galmarini

Chairman of the EUF



Dear Reader,

It's always a pleasure to share some thoughts with you on the current global economic situation and the role that factoring plays in supporting the real economy, even in the complex, difficult, and uncertain environment we are experiencing.

As you know, the whole of **Europe is still facing the effects of the escalating conflicts** between Russia and Ukraine and the countries of the Middle East. Some industries that for many years have driven European growth are now dropping productivity,

The ECB monetary policy adopted in the last two years with the aim to drastically reduce inflation had a significant negative impact on the GDP of the European countries: from a growth of 3.5% reported in 2022, it dropped to 0.5% in the year 2023. Having reached the inflation goal, the ECB reacted in the current year, decreasing the interest rate gradually, but not enough to stimulate a full recovery of the European GDP. In fact, **the perspectives for the year 2024 indicate a growth of 0.8%**. However, some big countries are below this average or even in a recession.

Due to this unfavourable macroeconomic scenario, the European Factoring market was stable in the first half of 2024 with a total turnover of € 1.2 trillion and a GDP penetration ratio of 11.3%, a reduction from 11.9% of the previous year. The European market represents more than 66% of the worldwide Factoring market, and factoring has become one of the preferred solutions in short-term financing by businesses, especially SMEs. In recent years, non-recourse factoring has progressively increased, representing more than 53% of the global turnover; this clearly demonstrates **the importance that clients give to risk coverage towards their debtors**.

Thanks to granularity and constant monitoring of invoice payments, our industry continues to be characterised by a **low level of risk**. Unfortunately, there is no specific treatment for factoring in prudential regulation. Factors must comply with the exact requirements as traditional banks, with greater capital consumption and provisions in excess of the risks taken due to the EBA NDoD, which considers a 90-day past due receivable a default.

EUF has carried out many initiatives with the Regulators to obtain recognition of the lower riskiness of factoring, and finally, in February 2024, we were invited to a roundtable organised by EBA for the CRR 3 mandate it received to update the DoD Guidelines. Thanks to the EUF efforts to gather some European data about 90 days past due, for the first time, **EBA agreed to consider possible changes in the treatment of non-recourse factoring**, accepting to evaluate our proposal for an extension of the technical past due period for exposures to buyers from 30 to 90 days.

To support our request, EBA asked EUF for more information and data. In August, EUF drafted a very important paper on « the case for revising the EBA DoD guidelines on purchased receivables » that was sent to the Regulator.

The EBA Staff appreciated our paper a lot, which strengthened our request by highlighting how data are crucial for effective influence.

At this moment, from a technical point of view, the EBA staff is aware of the topic and is supportive of our proposal in their Board but has underlined their members are under pressure to avoid encouraging payment delays in relation to the LPR by which the EU Commission would limit payment times to 30 days. Regarding this Regulation, which the EU Parliament has not yet approved, EUF pointed out that the NDOD guidelines could not be used instrumentally to speed up the payments of invoices and that it is not among the aims of the Regulator, addressed only to capital requirements.

In relation to the LPR, the EUF proposed ensuring contractual freedom in setting payment terms, forbidding unfair clauses that hinder the assignment of receivables and mentioning factoring as a credit management tool for SMEs.

Discussions are ongoing, with more flexibility expected on payment terms considering that there are sectors in which 30 days are shorter than the duration of their monetary cycle.

Thanks to our request, the **European Parliament amended the LPR proposal to include the « ban of assignment » and a mention of factoring.**

The LPR proposal is now frozen in the European Council because the permanent representations hold different positions, some of which are strongly critical of the proposal and the legal instrument of a Regulation.

Given the EBA staff's awareness of our low-risk profile, we have the chance to ask for a specific treatment for factoring, reducing significantly the current 100% RWA. In fact, the use of IRB models in factoring is not common. There are examples of specific transactions (consumer credit and real estate leasing) that received a more favourable risk weight because EBA recognised their low-risk profile.

The EUF is analysing the costs and benefits of a data pooling project among EU Banks/Financial Intermediaries to provide such data and support a request to adapt RW to the real risks of our industry.

In conclusion, I think the **EUF is doing a huge job of defending and empowering the factoring industry in Europe.** The EBA's willingness to review the NDoD and the Parliament's decision to propose the "ban of assignment" in the LPR represent significant successes for the EUF, regardless of the final outcome.

However, what we have done is not enough: the **EUF needs to take a decisive step forward to become a reliable data source for prudential authorities.** Data are crucial, and we have seen that without them, no European Authority will ever listen to us. The data Pooling project that we are exploring is thought to answer this call with many benefits expected for our industry and particularly to support a request for a lower RW for factoring in the standardised approach but also for Banks that use the IRB model in relation to the output floor progressively increasing to 75% in 2027.

So, I invite all our members to strongly endorse this project and contribute to the collection of necessary data.

Fausto Galmarini

The Legal Committee

What is going on?



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

Although the EU Legal Committee (LC) has mainly focused on the proposal for a Late Payments Regulation (LPR) over the last year, it naturally also continues to cover other legislative projects and legal developments, such as the proposal for a directive to harmonise certain aspects and rules of insolvency law or the project "VAT in the Digital Age (ViDA)" which among other things aims at the mandatory introduction of e-invoicing also in B2B-transactions. Since the last EU newsletter a few months ago, some new developments have occurred, not only regarding the aforementioned dossiers.

LPR

In early summer this year, the French Central Bank and Payment Term Observatory openly criticised the Commission's LPR proposal, fortunately, while simultaneously underlining the positive role of factoring in reducing working capital needs. This criticism is another addition to the quite long list of member states' authorities and representatives that voice concerns over the negative effects of the proposed LPR. And this stream of criticism does not seem to end: In June, a working document was published in which 14 EU member states called for the Commission to withdraw the LPR proposal, make a new or further analysis and then (if need be) come back with a new proposal for amendments to the current Late Payments Directive (LPD) instead.

In its contacts and meetings with representatives from different EU member states permanent representations at the Council, the EU has not only strived to foster more understanding for factoring as a form of financing that mitigates the negative effects of late payments, but it has also seen the aforementioned critical comments being reiterated and confirmed. While the current Hungarian presidency has tried to find some kind of compromise proposal, despite the Hungarian government having a rather negative view of the LPR proposal, it has not been successful so far. For now, the LPR legislative process seems to have stalled, and there have been rumours that the Commission may follow the requests from the 14 members mentioned above states and withdraw its LPR proposal or at least change it into an amendment of the current LPD.

In mid-October, the working party in the Council in charge of the LPR had a meeting with a few interest group stakeholders and Commission representatives. The discussions in this meeting apparently, among other things, touched upon the latest trends and developments in payment performance and behaviour in commercial transactions in the EU. In this context, information from the EU Payment Observatory seems also to have been included in the presentations. The EU Payment Observatory was established only in 2023 and is tasked with researching and analysing payment behaviour in the EU in different industries and settings. It has already published various reports on, e.g. the effects of e-invoicing on payment behaviour and the effectiveness of different enforcement measures to combat late payments. EU representatives have become involved with the work of the EU Payments Observatory over the last year to explain and promote factoring as a solution to the problems arising from late payments. It remains to be seen whether the EU Payments Observatory's work results will contribute to legislative measures better suited to combat late payments effectively than the current LPR proposal.

Insolvency directive

In late 2022, the Commission published its proposal for a directive harmonising certain aspects of insolvency law. Discussions started quite quickly in the Council and the Parliament and continued throughout 2023 and into 2024, but with time; it became increasingly clear that a common position would not be reached easily. Although most member states favour further harmonising insolvency law, the complex legislative proposal has also triggered criticism. In the Council, amendments were needed, especially to provide better protection for creditors' assets and to use liquidators to liquidate insolvent micro-enterprises.

Some of these points of criticism include the need to strike a better balance between different legitimate interests and avoid a shortfall in neutral support and supervision, especially for insolvent small and microenterprises. These coincide with those highlighted in March 2023 through the joint position paper of Leaseurope and EUF.

The Council and the EU Parliament still have to adopt their positions on this directive proposal. However, currently, the negotiations have stagnated mainly due to the clash between views on (the balanced regulation of) creditors' and debtors' rights.

e-invoicing

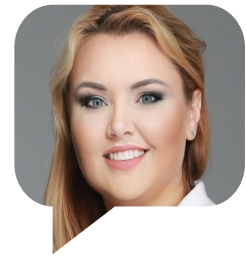
The general aims of the "VAT in the Digital Age" plans (ViDA) are to modernise the EU's VAT system to make it work better for enterprises and to avoid tax fraud. To this end, ViDA encompasses, among other things, setting up a new real-time digital reporting system based on e-invoicing. E-invoicing will become mandatory for most, if not all businesses in the EU. This will harmonise the use of e-invoicing: While some EU member states have already taken steps towards a more general use of e-invoicing in B2B transactions, other countries still lag behind. However, this lofty goal is apparently not easily agreed upon in its details: In June 2024, the deadline for implementation of the intra-EU electronic invoicing system and the system of digital reporting obligations was postponed by two and a half years to July 2030, apparently mainly due to the significant IT investments which are required. The idea of a single VAT registration, which is also a part of the ViDA proposal, has made progress during the Belgian presidency in the first half of 2024, but further work is needed, especially since Estonia apparently opposes the foreseen provisions and therefore blocks the adoption of the proposal as unanimity is required.

AML and annual SME report

In what can be classified as "further, but not less important news" for the LC that occurred during the last months, the Commission published its Annual Report on European SMEs 2023/2024 in mid-July 2024, covering, among other things, the number and situation of SMEs in Europe and the issues they face.

Also, the AML package (including the AMLA regulation (EU) 2024/1624, the AML regulation (EU) 2024/1624 and the 6th AML directive (EU) 2024/1640) was finalised and published in the official journal of the EU on June 19, 2024. This AML package contains quite a few changes regarding the rules on combating money laundering and terrorist financing, among other things, with a view to the definition of the ultimate beneficial owner.

Furthermore, the new EU anti-money laundering authority AMLA will likely add new views and interpretations on these rules. The EBA is currently helping out in the transitioning process to the new AMLA, which was legally established in June 2024. It will start operations in mid-2025 and is to be fully operational (including direct supervision of around 40 entities and issuing RTS, ITS, guidelines, and recommendations) by the beginning of 2028.



MAGDALENA
CIECHOMSKA-BARCZAK
Chair of the Economics and
Statistics Committee

The Economics & Statistics Committee

IH 2024 EU Factoring figures – First signs of growth slowdown

European factoring figures for IH 2024, gathered by the EU Federation for Factoring and Commercial Finance has, have shown that factoring turnover remained on a similar level as it was at the end of IH 2023, with an even slight negative change of -0,1% y/y.

Total factoring turnover for European countries reached 1,2 trillion euroeuros in the first half of 2024, and after 3 years of constant increase, this is the first post -pandemic year with a reported slowdown in growth, despite the positive change in GDP and favorablefavourable market conditions.

Due to that, the factoring GDP penetration ratio decreased comparingcompared to IH 2023 and. It reached 11,3% as atof the end of June 2024, 0,6% lower than the year earlier.

European Union countries represented almost 84% of the market in IH 2024 and had 0,4% y/y turnover growth with 11,7% of GDP penetration, when their countries' average nominal GDP increased by 0,8%.

All EUF members and partnerspartner countries represented 94,7% of total European turnover with -0,1% of turnover change y/y and. They had a 12,7 % of GDP penetration with 1,4% of GDP growth.

Graph 1. Turnover by country IH 2024 (Millions of €)

30 JUNE 2024	Notes	Total Turnover	pct var. on the previous year (Total)	GDP Penetration	European Market Share	GDP pct var. on the PY **
Austria*		17,536	-2.9%	7.2%	1.4%	-0.6%
Belgium*		68,138	3.4%	22.7%	5.6%	3.7%
Bulgaria	(1)/(2)	3,443	0.0%	7.4%	0.3%	2.1%
Croatia*	(1)	746	7.7%	1.9%	0.1%	3.3%
Cyprus	(2)	2,388	0.0%	15.6%	0.2%	3.7%
Czech Rep*	(1)	5,597	-1.0%	3.6%	0.5%	0.6%
Denmark*	(1)	9,118	-9.4%	4.8%	0.8%	1.1%
Estonia	(2)	1,950	0.0%	10.4%	0.2%	-1.3%
Finland	(2)	14,000	0.0%	10.3%	1.2%	-1.3%
France*		211,045	0.3%	14.5%	17.4%	1.1%
Germany*		194,200	0.7%	9.7%	16.0%	-0.1%
Greece*		12,758	11.4%	11.6%	1.1%	2.2%
Hungary	(1)/(2)	6,912	0.0%	7.1%	0.6%	1.3%

Ireland	(2)	14,309	0.0%	5.7%	1.2%	-4.1%
Italy*		146,773	3.7%	14.1%	12.1%	0.9%
Latvia	(2)	401	0.0%	2.0%	0.0%	-0.1%
Lithuania	(2)	2,550	0.0%	7.1%	0.2%	1.3%
Luxemburg	(2)	170	0.0%	0.4%	0.0%	0.3%
Malta	(2)	348	0.0%	3.2%	0.0%	4.2%
Netherlands*		78,769	-9.1%	14.1%	6.5%	0.6%
Poland*	(1)	52,934	1.1%	13.5%	4.4%	2.9%
Portugal*		21,467	-0.7%	15.6%	1.8%	1.5%
Romania	(1)/(2)	4,330	0.0%	2.8%	0.4%	0.8%
Slovakia	(2)	1,457	0.0%	2.3%	0.1%	2.1%
Slovenia	(2)	1,250	0.0%	3.9%	0.1%	0.8%
Spain*		135,077	1.3%	17.8%	11.1%	2.9%
Sweden	(2)	10,737	0.0%	3.8%	0.9%	0.6%
EU Total Turnover	(1)/(2)	1,018,402	0.4%	11.7%	83.9%	0.8%
EU Member States (*)	(1)/(2)	954,159	0.4%	12.7%	78.6%	1.0%
Norway *	(1)	13,458	0.0%	6.0%	1.1%	2.6%
Switzerland	(2)	297	0.0%	0.1%	0.0%	1.7%
United Kingdom*	(1)	181,390	-2.8%	13.5%	14.9%	0.7%
European Countries	(1)/(2)	1,213,546	-0.1%	11.3%	100.0%	1.2%
EU Member States or Partners (*)	(1)	1,149,007	-0.1%	12.7%	94.7%	1.4%

** countryeconomy.com

Notes:

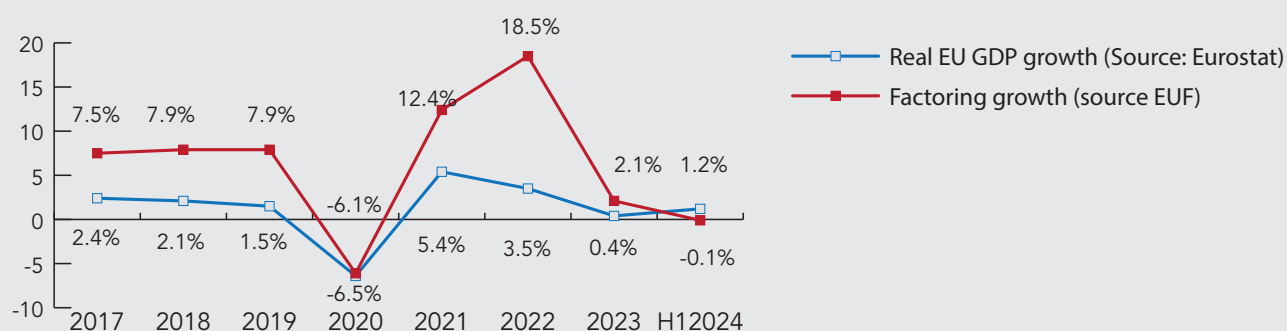
- 1) Pct variation has been corrected in order to avoid biases due to exchange rates fluctuation.
- 2) Estimation based on available data

Source: EU Member States, countryeconomy.com, statista.com (GDP values in market prices)

The most significant impact on factoring turnover growth figures had 3 countries where the highest decrease year on year in absolute values was observed: the Netherlands, the United Kingdom and Denmark. A slight negative change was also reported in the Czech Republic and Portugal, suggesting underlying factors which tempered with factoring turnover despite positive economic growth.

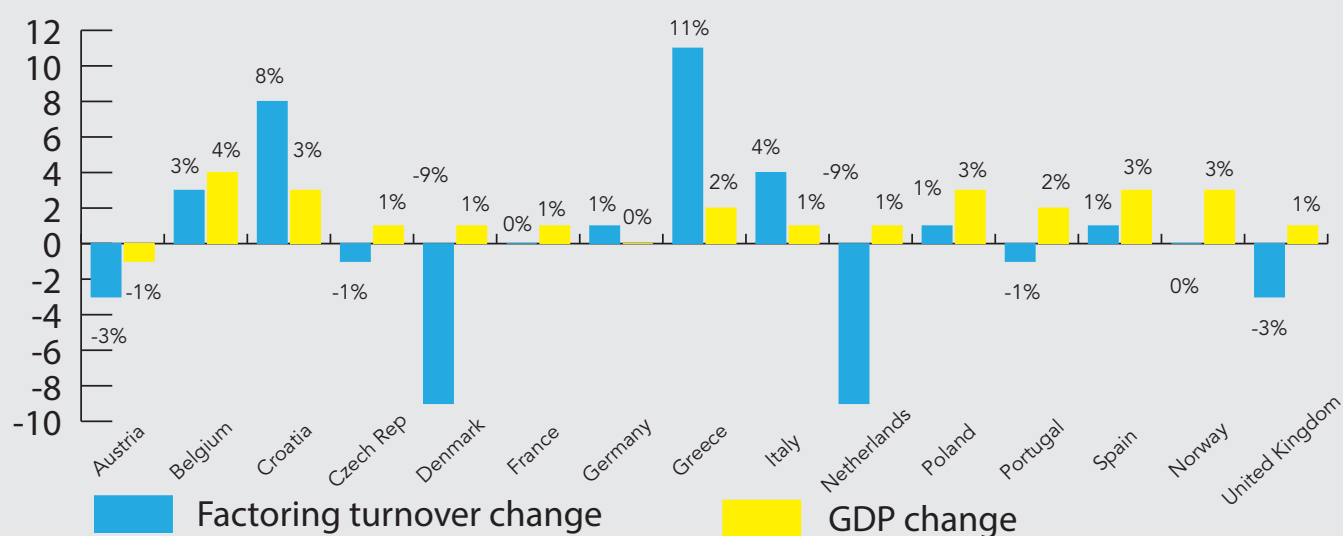
Historically, factoring turnover has shown a positive correlation with EU GDP fluctuations. However, in IH 2024, the year-on-year change in factoring turnover has diverged from the annual GDP growth trend for the first time in years.

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



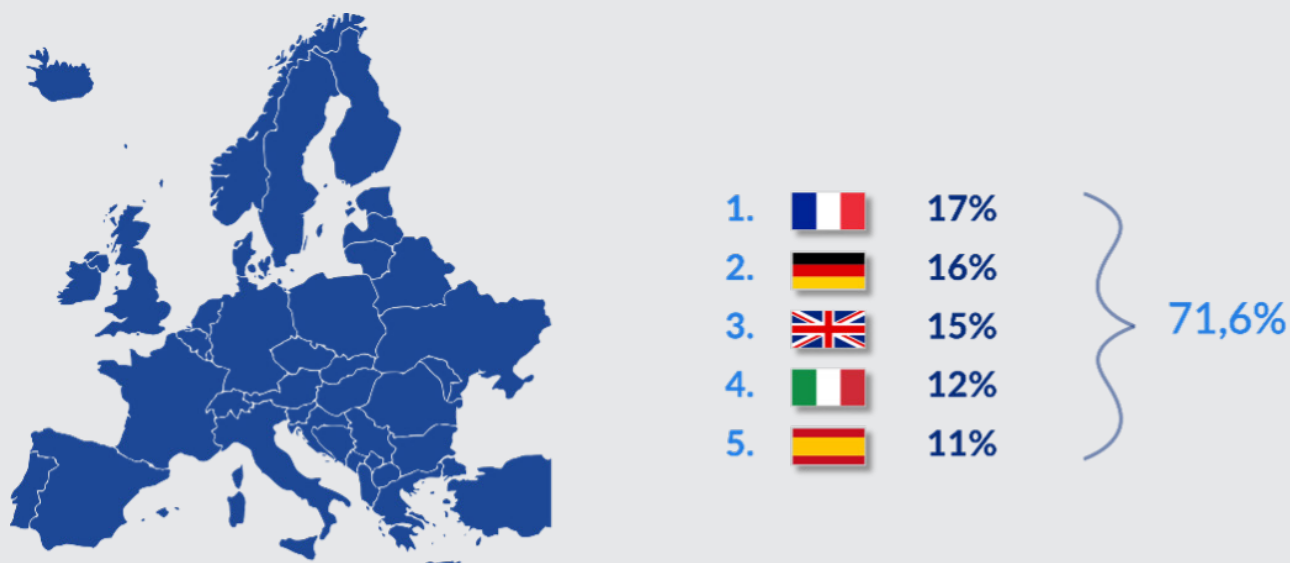
The factoring-GDP correlation varied from country to country. In this year in the majority of countries, apart from 4 countries. In Croatia, Germany, Greece, and Italy, the change of factoring turnover year on year was lower than the country's nominal GDP change. It indicated the presence of forces that offset the gains of economic growth.

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



The leader of the European market is still France with 18% of the market share; the next were Germany with 16% of the market share, the UK with 15%, Italy with 12% and Spain with 11%. These top 5 countries represent almost 72% of the EU factoring market (1% higher than the previous year).

Graph 4. Top 5 countries



In conclusion – data for IH 2024 shows that this year will be challenging for the factoring industry. The second half of the year will determine whether there will be growth or decrease in factoring turnover volume in 2024. A further decrease in base rates or a stronger business inclination toward investment may support increased factoring volumes. Although GDP growth generally promotes expansion in factoring turnover, persistent high interest rates, cautious business strategies, supply chain restructuring and sector-specific demand variability may serve as constraints for factoring growth in 2024.

The Environnement, Social and Gouvernance (ESG) Committee



ANTOINE DE CHABOT
Chair of the ESG Committee

A New representative at the ESG Committee

The ESG Committee has a New representative: Magdalena Wessel, head of the legal department at DFV and vice-chair of EUF, who replaces Eric Lehmann.

New context with a new team at Washington's office and a new mandate for EC?

Donald Trump's return to the US Supreme Court could open a new era for ESG matters or at least alleviate the commitment of a worldwide first power.

- In this context, the EU could reshape its policy. At the same time, stakeholders are voicing their opinions on finely tuning the EU's regulations. From that perspective, it's worth mentioning:
- Mario Draghi's report on EU competitiveness focuses on the need for sustainable growth while stressing the regulatory burden of some rules (CSRD, CS3D, and others).
- The hearing of Commissioner-designate Ms Albuquerque with the European Parliament highlighted her initial views on sustainable finance, emphasising the importance of continuing to direct capital towards projects that guarantee a sustainable future and comply with the 2050 targets and the Green Deal. However, she also stresses that the current framework for sustainable finance needs to be more proportionate for small market players and small businesses. Existing overlaps and inconsistencies require resolution to ensure consistent implementation of the measures adopted without resorting to deregulation.
- The EPRS (European Parliament Research Service) recommendations for the EU on sustainable finance focus on ensuring a stable policy. According to the report, the balance between rigid rules, effective results in terms of achieving ESG objectives, and competitiveness needs to be carefully assessed.

Green factoring is identified in the Belgian Presidency report examining SMEs' access to finance during SMEDay 2024.

The Belgian Presidency published a report examining SMEs' access to finance during the SMEDay 2024.

The Presidency report makes some mention of green factoring amongst the solutions to support SMEs' green transition and "collaborative reverse factoring", "these instruments [being] also interesting in a logic of financing the value chain and introducing ESG criteria."

The Presidency report mentions an OECD study that classifies green supply chain financing and green factoring as part of the green financing instruments available to SMEs.

European authorities seem to have very well identified green factoring; this confirms the relevance of continuing to work on the topic, sharing national points of view, and advocating for considering the specificities of factoring, such as the necessity of avoiding ESG diligences for factors on the debtors, given the absence of a relationship between factors and debtors.

The Prudential Risk Committee

Factoring and Prudential Regulation: Aligning Risk Sensitivity with Business Realities



DIEGO TAVECCHIA
Chair of the PRC Committee

A recent joint letter from the Director General of the Treasury of France, Germany and Italy underscores the need for regulatory restraint in the banking sector. Addressed to the European Commission, the letter highlights that while recent legislative initiatives have enhanced financial stability, their full implementation requires time. The Directors advocate avoiding new large-scale initiatives in the short term to allow stakeholders to adapt effectively and ensure measures achieve their intended outcomes.

In particular, they draw the attention of the Commission to the following points:

- Ensure a level playing field with jurisdictions where the Basel framework has yet to be implemented rigorously, as in the EU.
- Ensuring that Level 2 and Level 3 acts, such as RTS, ITS, and guidelines from the EBA, remain proportionate and risk-sensitive, avoiding unnecessary stringency.
- Identifying areas for simplification to reduce the administrative burden on the banking industry.

This call for prudence aligns with industry demands, including those of the factoring sector, which has been significantly affected by overly conservative regulatory frameworks. Factoring, a key tool for business liquidity and risk management, faces challenges due to its misclassification in prudential regulation. These challenges arise from the unique nature of trade credit compared to traditional financial credit. The factoring industry is one of the businesses where this type of advice is needed. Factoring has been significantly penalized by the lack of recognition of its low-risk nature and its peculiar exposure to trade receivables in the prudential regulation, bringing to particularly penalizing provisions for the definition of default in the case of purchased receivables and to unnecessarily high capital requirements for its exposures.

Taking inspiration from the letter by the three Directors, I outline below some of the main issues arising from prudential regulation and the factoring industry's corresponding proposals to improve the risk sensitivity of the regulatory framework:

- Factoring, particularly non-recourse transactions, has demonstrated low default rates, owing to the underlying trade receivables acting as de facto collateral. Yet, prudential frameworks often treat overdue invoices as potential defaults, irrespective of the credit risk.
- The public sector remains a critical area for factoring. Although not indicative of insolvency, payment delays lead to distorted NPE ratios and capital requirements. EUF recommendations focus on keeping the 180-day overdue threshold for public debts as provided by the DoD Guidelines and exempting them from default classifications when legal or regulatory factors delay payments. Again, aligning the moment in which counting the day's past due starts to the effective financial duration of the transaction, as agreed with the client, would fit the transaction without leaving room for unexpected risks.
- Technical delays in payment, stemming from administrative delays or disputes, frequently misclassify sound debtors. Extending the classification period for overdue invoices from 30 to 90 days would reduce operational errors and foster better client relationships. The EUF has ongoing discussions with the EBA on this. Furthermore, applying a facility-level default approach, already permitted for retail exposures, could enhance risk sensitivity for factoring.

Doing so would ensure that default recognition aligns more closely with actual risk without penalizing entire debtor portfolios.

- Current regulations often classify factoring exposures as “unsecured lending”, leading to disproportionately high capital requirements. Long ago, the factoring industry proposed a revised risk weight for factoring, recognizing its receivables-backed nature. Implementing these changes would better reflect the actual risk profile of factoring and support its expansion as a financing tool.

Factoring, a vital financial tool for many small and medium businesses, faces disproportionate regulatory burdens under existing prudential norms

Factoring, a vital financial tool for many small and medium businesses, faces disproportionate regulatory burdens under existing prudential norms. Aligning these frameworks with the unique risk characteristics of factoring would enhance regulatory efficiency and strengthen the financial ecosystem supporting small and medium enterprises. Continued dialogue with European and national regulators is crucial to address these discrepancies and promote a fairer competitive landscape. However, regulatory adjustments are attainable with robust, transparent, and comprehensive datasets. To support this, the EUF is exploring a project to aggregate critical data from European factoring firms, bolstering the case for a more proportionate and risk-sensitive regulatory approach.



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.



EU Federation for Factoring and Commercial Finance

A subdivision of FCI

Keizersgracht 559,
1017 DR Amsterdam
The Netherlands

Rue François Vander Elst 4,
1950 Kraainem
Belgium

Tel: +31-20-6270306

Email: info@euf.eu.com

Web: www.euf.eu.com