ASSIFACT
Associazione Italiana per il Factoring

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Il Segretario Generale
Alessandro Carretta

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NEWSLETTER / APRIL 2020 / ISSUE 18

EUFederation

Connecting and Supporting the Commercial Finance Industry Worldwide

Contents:

Welcome from Françoise Palle-Guillabert

Chair EUF

Dear Reader,

The international Covid-19 pandemic is shaking the whole world. This is an unprecedented health crisis that affects all of us. The shock to our economy is tougher than in 2008 and will have devasting economic and social consequences across Europe.

Since the beginning of this crisis, the EU Federation organized itself to protect its people and ensure continuity of service. We are in ***close contact with the European economic authorities, and European sister federations as well, in order to monitor, review and seek appropriate support for business.***

Of course, the 6th EU Factoring and Commercial Finance Summit scheduled on 30-31 March by the EUF and FCI in Rome, in Italy, had to be postponed.

Despite this, the Executive committee met by audio conference on March 30th. During this meeting, I was re-elected as chair of the EU Federation. I am honoured to continue this important role and appreciate, to help me in this mission, Fausto Galmarini chairman of Assifact (Italy) also re-elected as Vice Chair, and welcome Magdalena Wessel of DFV (Germany) elected as Vice Chair, further cementing and strengthening a highly knowledgeable and experienced leadership team for the organisation.

Magdalena Wessel

Fausto Galmarini

More than ever the Factoring and Commercial Finance Industry has a key role to play in supporting economic growth, employment and wealth creation in Europe.

The data collated by the EUF shows that in 2019, factoring and commercial finance volumes in the ***EU grew overall by 7.9% to reach €1.91 trillion***. This rate of growth, which equaled that seen in 2018, again clearly outpaces the increase in GDP in Europe. Funding of €275Bn is supporting around 280,000 European clients, helping them to deliver growth, employment and business success. With factoring and commercial finance now representing around 11.3% of EU GDP, this is an increasingly powerful and vital contribution to EU economic development. Besides Europe remains the first economic zone in the world for factoring with two-thirds of the global total.

FACTORING AND COMMERCIAL FINANCE REPRESENTS AROUND 11.3% OF EU GDP, THIS IS AN INCREASINGLY POWERFUL AND VITAL CONTRIBUTION TO EU ECONOMIC DEVELOPMENT

For us as providers, it is very rewarding to see our efforts deliver such important benefits for EU business. ***We also work to reinforce these key messages with our regulators and lawmakers and to improve the way that we deliver our services for the benefit of all***.

This is particularly important in this tremendously difficult situation. European Factors will give particular attention in the coming months to the needs of businesses, from micro to SME, from merchant to large corporate. All of them are exposed to the consequences of this exceptional crisis. Indeed, ***the European Factoring Industry is committed to give full support to its clients whose activities have been so dramatically affected***.

The statistics of European factoring are generally good in the first quarter of 2020. However, with the economy coming to a sudden halt, and in the absence of invoices to finance, they should be expected to decrease sharply from April.

On behalf of the EUF, I want to share our support to our members during this challenging time. We know that the crisis is still ongoing, but we see the light at the end of the tunnel and hope that the situation will become stable very soon.

Françoise Palle-Guillabert

Chair EUF

I WANT TO SHARE OUR SUPPORT TO OUR MEMBERS DURING THIS CHALLENGING TIME. WE KNOW THAT THE CRISIS IS STILL ONGOING, BUT WE SEE THE LIGHT AT THE END OF THE TUNNEL AND HOPE THAT THE SITUATION WILL BECOME STABLE VERY SOON

The Legal Committee

What kept us awake in 2019?

MAGDALENA WESSEL
Chairwoman of the Legal Committee

In 2019, the ten delegates in the EUF Legal Committee dealt with a number of different legal issues, ranging from contract law topics such as dealing with bans on assignments to matters related to Anti-Money Laundering and Countering Terrorism Financing (AML/CFT). This report gives an overview of the LC's work in 2019.

The main task of the EUF Legal Committee (LC) lies in deliberating on current and particularly legislative developments which already or may have effects on factoring. The monthly monitoring reports provided by Euralia form the basis for these deliberations as they identify such issues and report on their latest developments. The LC's work includes preparing replies to public consultations as well as position papers for the EUF ExCom to agree on as well as preparing and sometimes also attending meetings with stakeholders.

In 2019, the LC mainly worked through exchanging e-mails, but some personal and over the phone contacts were also involved, although no physical LC meeting took place in 2019.

Among the legal matters with which the LC dealt in 2019, the following were at the centre of the LC's attention:

THE MAIN TASK OF THE EUF LEGAL COMMITTEE LIES IN DELIBERATING ON CURRENT AND PARTICULARLY LEGISLATIVE DEVELOPMENTS WHICH ALREADY OR MAY HAVE EFFECTS ON FACTORING

– The proposal for ***a regulation on the law applicable to the third-party effects of assignments of claims*** was published in 2018 and is meant to close a regulatory gap in the Rome I regulation (EC) No. 593/2008. So far, the proposed regulation generally wants to apply the law of the assignor to such third-party effects of assignments, which corresponds with the EUF's advocated solution. However, discussions have arisen during the legislative process with a view to including exceptions and special rules for certain products involving assignments and similar transfers of receivables, e.g. for securitisation. The EUF still ***advocates for the application of the law of the assignor as the general and preferably only rule*** and hopes that the legislative process which stalled in 2019 will be finalized in 2020.

– The LC also continued to follow the ***legislative process for the directive (EU) 2019/1023 on restructuring and insolvency***. This directive was adopted during the summer of 2019 and since then, the LC has provided a platform for exchanging information and views on the restructuring directive's national implementation.

– Another process which kept the LC busy in 2019 was the still ongoing ***review of the Late Payments Directive 2011/7/EU***, which in parts is linked to the Commission's study on Supply Chain Finance (SCF), work on which started in 2019 and which has only recently been published. The EUF LC was involved in both projects, inter alia by drafting a reply to a Commission's consultation in January 2019 and presenting the EUF's views

in meetings and interviews. The LPD contains restrictions on payment periods of more than 30-60 days, but leaves some room for manoeuvres as long as the payment periods are not grossly unfair on the creditor. In the spring of 2019, however, the directive (EU) 2019/633 on unfair trade practices (UTP) in business-to-business relationships in the agricultural and food supply chain was adopted which contains much stricter rules on payment periods, albeit limited to the agricultural and food sector – the LC also discussed this directive and the possibility of similar strict rules on payment periods being introduced during the currently ongoing review of the LPD.

Just like in the previous years, the LC in 2019 also coordinated its work and ***cooperated especially with the Prudential Risk Committee (PRC)*** on quite a few issues which fall within the scope of both committees. These issues included issues connected to the ***CRR II/CRD V-package, the question of credit insurances as CRR-compliant collateral as well as the further harmonization*** (or "EUnification") ***of the regime for AML/CFT***, in particular by enhancing the EBA's role in AML/CFT through the revision of the European Supervisory Agencies (ESAs) in the course of 2019. By the end of 2019, the European legislators voiced plans for drafting a new AML-regulation instead of another AML-directive.

Some of the aforementioned issues will continue to keep the LC delegates awake at night also in 2020: ***What will the focus of such an AML-regulation be? Will the proposed regulation on the law applicable to the third-party effects of assignments of claims be finalized and adopted in 2020? What can the EUF make of and with the Commission's SCF Study? Will the review of the LPD result in a proposal for even stricter limits on contractual payment terms***? Still, there will also be new topics coming into focus in 2020: Aside from the current pandemic-related crisis with its likely mid- to longterm effects also on the factoring industry, the focus may well lie on issues such as sustainable finance and regulatory changes due to CRR II.

IN 2020, THE LC WILL WORK ON:

- **AML-REGULATION**
- **LAW APPLICABLE TO THE THIRD-PARTY EFFECTS OF ASSIGNMENTS OF CLAIMS**
- **EU COMMISSION SCF STUDY**
- **REVIEW OF LPD**
- **PANDEMIC RELATED CRISIS**
- **SUSTAINABLE FINANCE**
- **REGULATORY CHANGE DUE TO CRR II**

The Economics and Statistics Committee

2019 EU factoring industry figures – A sustained upward trend

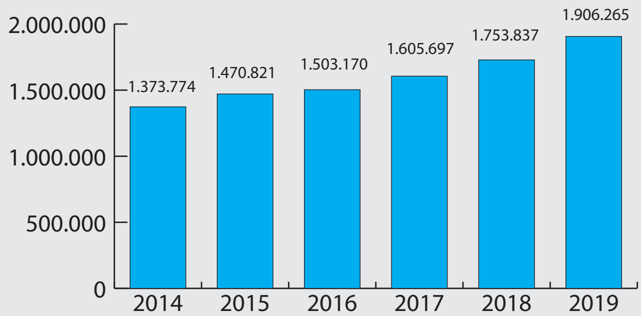
MAGDALENA CIECHOMSKA-BARCZAK
Chairwoman of the Economics and Statistics Committee

Figures collated by the EUF's Economic and Statistic Committee for 2019 show an 8% growth year on year in factoring turnover in EU countries, with the total now exceeding 1,9 trillion euro.

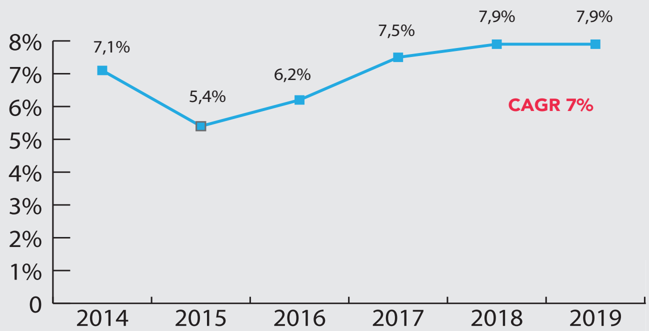
It was the 11th consecutive year of growth and the third where the yearly increase was higher than the 6 years' market compound annual growth rate (7%).

This figure confirms how factoring is playing an essential role in financing companies' growth, outpacing the progress that might be expected simply from good economic conditions in the EU.

Factoring turnover 2014-2019

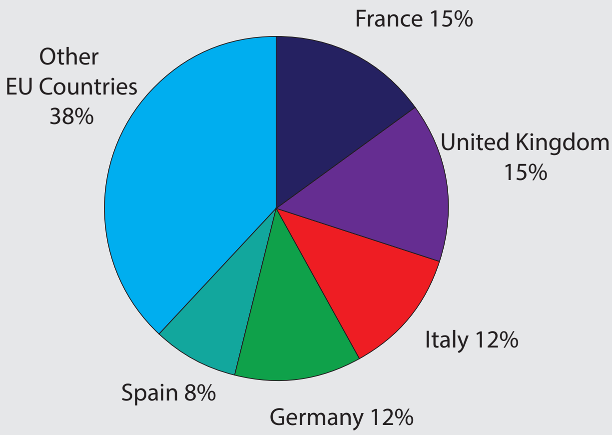


Yearly increase 2014-2019



The high level of concentration shown by the EU factoring market in previous years also in 2019 remained unchanged, with the top five countries of France, United Kingdom, Germany, Italy and Spain together representing 75% of the total EU market. And in 2019, for the first time, France overtook the United Kingdom to become the no. 1 country by volume in the EU factoring market.

Top 5 Countries



The table on next page shows detailed information about factoring turnover by country, together with year on year growth rate, GDP penetration and market share.

This year's GDP penetration ratio was again higher than last year's (11,3% comparing to 10,9% in 2018), and there were again wide variations between countries. The lowest GDP penetration ratio was in Luxemburg (1%) and the highest in Belgium (18%).

GDP Penetration ratio in 2019: 11,3%

Turnover volumes by Country (Millions of €)

31 December 2019	Notes	Total Turnover	pct var. on the previous year	GDP Penetration	EU Market Share
Austria*		27 220	13%	7%	1,4%
Belgium*		84 819	11%	18%	4,4%
Bulgaria	(1)/(2)	3 532	10%	6%	0,2%
Croatia*	(1)/(2)	1 140	4%	2%	0,1%
Cyprus	(2)	3 181	-11%	14%	0,2%
Czech Republic*	(1)	7 240	6%	3%	0,4%
Denmark*	(1)	18 838	0%	6%	1,0%
Estonia	(2)	3 900	8%	14%	0,2%
Finland	(2)	28 000	9%	12%	1,5%
France*		349 714	9%	14%	18,3%
Germany*		275 491	14%	8%	14,5%
Greece*		15 045	3%	8%	0,8%
Hungary	(1)/(2)	8 550	24%	6%	0,4%
Ireland	(2)	28 424	8%	8%	1,5%
Italy*		263 364	6%	15%	13,8%
Latvia	(2)	805	3%	3%	0,0%
Lithuania	(2)	3 400	-7%	7%	0,2%
Luxemburg	(2)	339	0%	1%	0,0%
Malta	(2)	696	26%	5%	0,0%
Netherlands*		112 148	14%	14%	5,9%
Norway *	(1)/(2)	26 441	1%	7%	1,4%
Poland*	(1)	66 141	19%	13%	3,5%
Portugal*		33 800	6%	16%	1,8%
Romania	(1)/(2)	4 854	-3%	2%	0,3%
Slovakia	(2)	2 032	-19%	2%	0,1%
Slovenia	(2)	2 000	43%	4%	0,1%
Spain*		185 559	12%	15%	9,7%
Sweden	(1)/(2)	20 625	4%	4%	1,1%
United Kingdom*	(1)	328 966	-1%	13%	17,3%
EU Total Turnover	**(1)/(2)**	**1 906 265**	**7,9%**	**11,3%**	**100,0%**
EUF Members (*)	**(1)/(2)**	**1 795 927**	**8,0%**	**12,0%**	**94,2%**

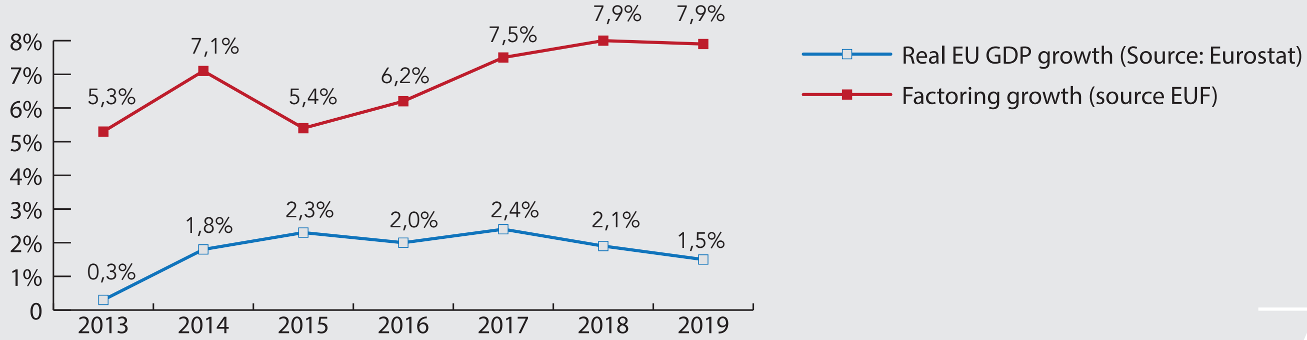
Notes:

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

2) Estimates on the basis of the available information

Source: EUF Members, FCI

Trends of factoring turnover growth and EU GDP growth



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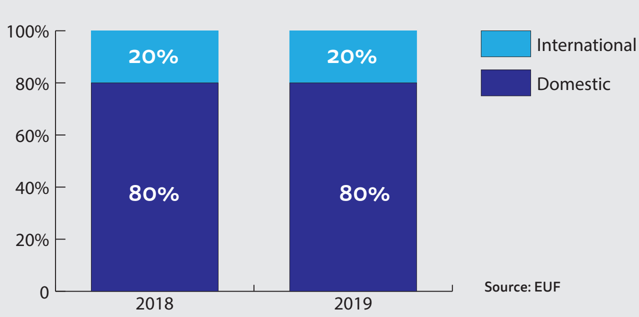
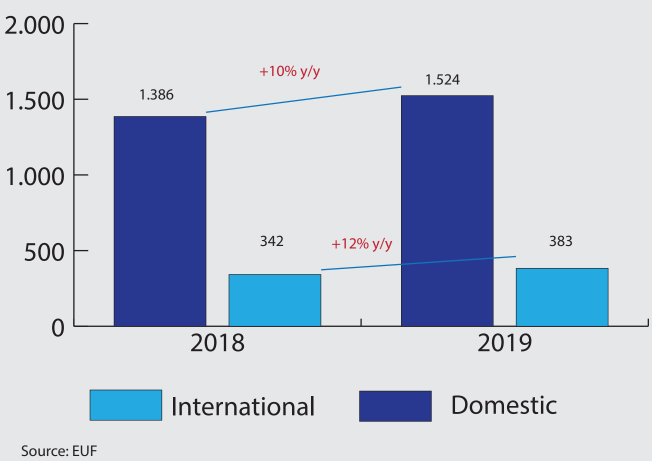
The dominant type of factoring was domestic, representing 80% of total turnover, unchanged from the previous year. In 2019 the growth of international factoring was slightly higher than that of domestic.

Structure of 2019 turnover – domestic and international factoring

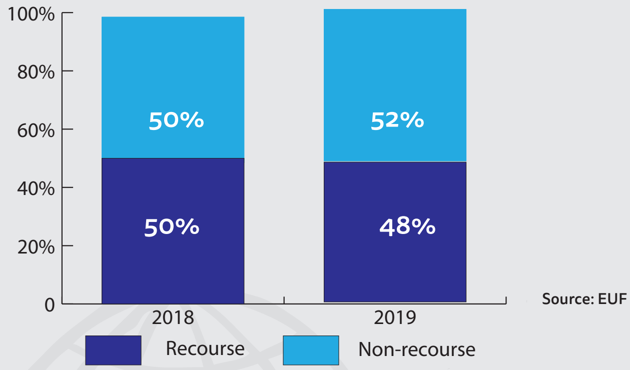


Change in turnover structure (domestic vs international) 2018-2019

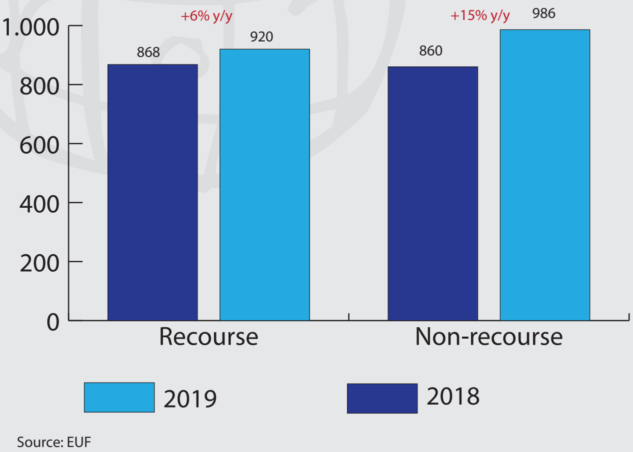


In 2019 the increasing role of non-recourse factoring was evident. Non-recourse factoring exceeded 52% of total turnover (50% in 2018 and 48% in 2017). In 2019 it grew by 15% y/y. Its increasing popularity is due to the fact that it provides not only cash funding for companies, but also provides risk coverage in case of insolvency of the debtor.

Structure of 2019 turnover – recourse vs non-recourse factoring



Change in turnover structure (recourse vs non-recourse) 2017-2018



At the end of 2019, the estimated value of funds advanced by European factors to their clients exceeded 274 bn euro, showing a year on year increase of 14%.

These advances were secured by assets valued at 331bn euro (increase by 7% y/y). The ratio between advances granted and security values equals 83%, and it reflects low risk profile of factoring transactions.

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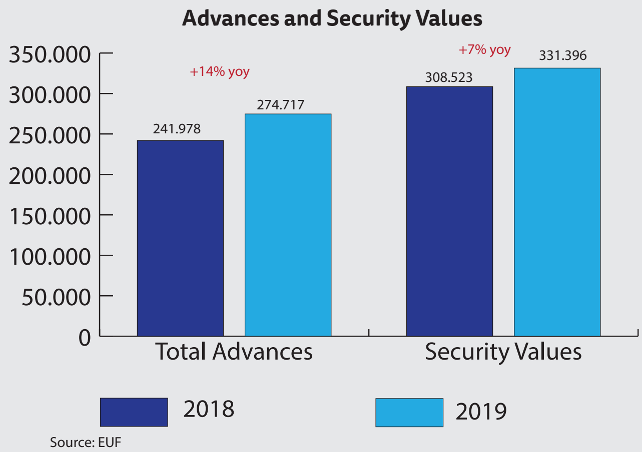
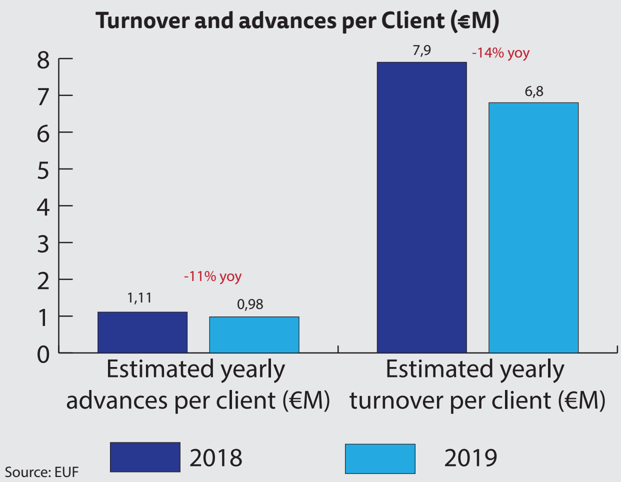
Advances and Security Values in 2018 and 2019



In 2019 average funds granted per client was 1,0M EUR, 11% lower than in 2018, and the average turnover per client in 2019 was 6,8 EUR, 14% lower than in 2018. This decrease year on year in average amount of funds granted and average turnover per client is due to the increased number of user clients in 2019.

Turnover and Advances per Client 2018-2019

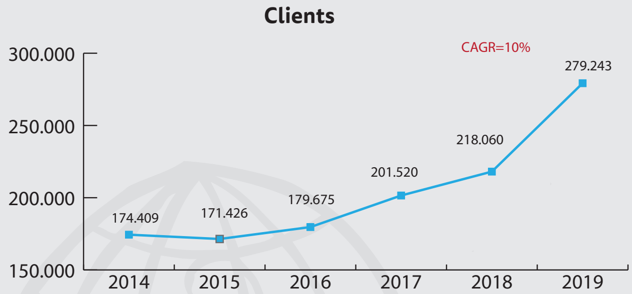


The level of average advance per client also confirms that the risk exposure of European factoring companies remains low, regardless of the growing turnover volume.

The estimated total number of active clients in 2019 was 279k, and the compound annual growth rate of clients' number in last 6 years was almost 10%.

This increase in client number was due to joining national associations by new factoring companies which provide factoring services for micro and small customers.

No of Clients 2014-2019



In conclusion, statistics collated by the EU Federation for 2019 shows that factoring is still developing much faster than the EU economy. It is a source of funding for growing number of companies and also provides them additional benefits – such as popular risk coverage (in case of non-recourse factoring), accounts receivables portfolio management and a soft collection service.

FACTORING IS STILL DEVELOPING MUCH FASTER THAN THE EU ECONOMY

The Prudential Risk Committee

What kept us awake at night in 2019?

DIEGO TAVECCHIA
Chairman of the PRC Committee

2019, as usual, has been a year of intense work on the side of prudential supervision. The EBA, the ECB and the other European institutions have been generating a huge number of regulatory edicts, consultation papers, guidelines and instructions designed to improve the sound and prudent management of banks and supervised financial institutions.

Within the PRC, in order to assure effectiveness of our actions, we normally focus on those items that would, directly or indirectly, impact on factoring activity. Thus, only a few (but the most significant) items among the above group has been addressed.

In particular, the PRC has carefully examined and commented on:

1. ***The draft EBA guidelines on loan origination and monitoring***
2. ***The public consultation issued by the European Commission on "Implementing the final Basel III reforms in the EU"***

Another issue that has been discussed is the EBA ***definition of default***, the implementation date of which is rapidly approaching.

1. On the EBA guidelines on loan origination and monitoring

Although the guidelines look like a collection of good and sound practices in underwriting and monitoring credit exposures, the level of detail is very high and ***not necessarily adaptable to all kinds of financial services, and in particular to factoring***. Factoring companies can serve riskier businesses without undertaking larger risks than banks. Accordingly, the client portfolio of factoring companies is normally made of smaller and sometimes apparently riskier businesses. The underwriting process considers not only the credit worthiness of the client but also the credit worthiness of the account debtors, as well as the quality of the trade relationships and of the aggregate portfolio of underlying receivables.

The EUF has highlighted that ***the top down application of rigid credit decision policies*** (which are strongly related to bank lending) ***might be detrimental to the real economy*** as it might limit access to finance for those businesses, especially SMEs, who do not qualify for traditional lending but could benefit from factoring, having a strong receivables portfolio.

> ***EBA GUIDELINES ON LOAN ORIGINATION AND MONITORING IS NOT NECESSARILY ADAPTABLE TO FACTORING: TOP DOWN APPLICATION OF RIGID CREDIT DECISION POLICIES MIGHT BE DETRIMENTAL TO THE REAL ECONOMY***

A suggestion has been made to explicitly state that the Guidelines focus on traditional bank lending, while for specialized forms of financial services, such as factoring, a lower client quality might be compensated by the strong quality of the assets purchased or pledge. In general, there is a need for more consideration within the Guidelines for asset-

based lending, which has particular risk control features compared to other forms of finance.

In addition, factoring companies do not have direct contractual relationships with the debtors of the purchased receivables and hence only limited access to detailed information: they should be able to continue to rely on external information on credit risk and creditworthiness, provided directly by the client (who shares, among other things, the sales ledger and the payments behaviour of the buyer) and sourced by third parties (e.g. from credit enquiry agencies).

2. On the public consultation issued by the European Commission on "Implementing the final Basel III reforms in the EU"

In the implementation the Basel III reform, the EUF suggested that the ***EC should consider some specific issues related to factoring activity, and*** (amongst other things) to introduce:

i. a reduced risk weight for unrated but solid business;

ii. specific provisions for factoring such as:

a. considering trade receivables as an eligible guarantee under the CRM framework;

b. allowing the application of the definition of default on the single invoice level;

c. a reduced risk weight for purchased receivables to unrated businesses;

iii. a reduced risk wight for exposures to purchased receivables covered by credit insurance;

iv. to remove, for public entities, the application of art. 178.1, b) of the CRR.

IMPLEMENTING THE FINAL BASEL III REFORMS SHOULD CONSIDER:

- **REDUCED RISK WEIGHT**
- **SPECIFIC PROVISIONS FOR FACTORING**
- **ADAPTATION OF THE CRR FOR PUBLIC ENTITIES**

3. On the Definition of Default (DoD)

The EUF is currently working to obtain an ***interpretation of the new DoD rules that would be more fitting to the actual operations of factoring***. The EUF is considering any approach that may help reduce the impact of the new rules on the industry, especially in the current environment of uncertainty caused by the COVID-19 outbreak. Such need is also shared by banks and companies operating in other industries, such as leasing.

Despite being focused on those "significant items", the PRC keeps monitoring all the relevant regulatory changes and will keep Members informed through this newsletter.

INTERPRETATION OF THE NEW DOD RULES FITTING TO THE ACTUAL OPERATIONS OF FACTORING ESPECIALLY IN THE CURRENT ENVIRONMENT OF UNCERTAINTY CAUSED BY THE COVID-19 OUTBREAK

The EU Commission's SCF Study includes factoring

MAGDALENA WESSEL
Chairwoman of the Legal Committee

The recently completed Study on Supply Chain Finance (SCF Study) which was put together on behalf of the EU Commission, provides an in-depth analysis of the current state and recent developments in the area of supply chain finance (including factoring) at EU level and within the EU member states while also describing the main barriers to the growth and cross-border development of SCF as well as possible solutions for overcoming these barriers.

In early 2019, work commenced on the EU Commission's Study on Supply Chain Finance (SCF Study). It was finalized only recently and published in late March 2020, cf. https://op.europa.eu/s/n25U, and includes information, data and analyses on nine different forms of SCF, including factoring. The EUF as well as some of its member associations in different EU member states were actively involved in this work as they were interview partners, sources of information and points of reference on different matters regarding factoring.

This SCF Study is based on a wide understanding or scope of SCF and contains definitions and interesting delineations for the different SCF techniques covered by the Study. ***The SCF Study identifies the lack of awareness and understanding of SCF techniques, including factoring, as one of the six relevant barriers to the growth and cross-border development of SCF*** which are analysed more closely in the SCF Study. Such lack of awareness and understanding can inter alia be countered by using a more clearcut and widely, if not even generally accepted terminology as well as ***spreading information about SCF forms such as factoring – something the EUF has done since it was established*** over ten years ago by providing information and statistical data on the factoring industry in the EU and also by putting together a glossary for factoring in several different European languages. It remains to be seen whether the Global Supply Chain Finance Forum's terminology referenced in the Study and some of the additional information on the SCF market in the EU (e.g. regarding fintechs) contained in the Study will lead to some further finetuning of the EUF's work in this area.

The catalogue of six barriers to the growth and cross-border developments of SCF and the presentation of possible solutions can be seen as the heart of the Study. Two of the issues the EUF has worked on over the last few years, namely ***e-invoicing and unclear accounting rules for factoring/SCF***, are also covered by the Study and included in the aforementioned catalogue of barriers. For e-invoicing, it is interesting to note that the

EUF CONTRIBUTIONS INCLUDE:

- **PROVIDING INFORMATION AND STATISTICAL DATA ON THE FACTORING INDUSTRY**
- **PUTTING TOGETHER A GLOSSARY ON FACTORING**
- **WORKING ON E-INVOICING AND UNCLEAR ACCOUNTING RULES FOR FACTORING/SCF**

Study apparently points out the mandatory e-invoicing not only for public procurement, but also between commercial parties which has been introduced in Italy and Portugal as a positive development. It will be interesting to see whether this perception will initiate similar delevopments in other EU member states or even on the EU level.

As for the analysis of legal and regulatory barriers to SCF in the Study, some of the findings and conclusions contained in the Study are quite predictable, considering that they are largely based on and hence ***in line with the EUF Legal Study of 2017***, but also because they cover some of the legal issues the EUF has worked on over the last years. This includes the issues of the regulatory gap in the ***Rome I-regulation*** and of (limiting or even prohibiting) ***bans on assignments***, but also the issue of a ***lack of homogenous financial supervisory requirements for factoring throughout the EU***.

To factoring experts who are knowledgeable not only on their national legal and regulatory framework for factoring, but who also know other jurisdictions and their solutions, it hardly comes as a surprise that the Study's analysis of national regulation and licensing requirements finds a regulatory diversity which is then included in the catalogue of the six barriers for SCF growth and cross-border expansion. On first sight, the Study's proposed solution of establishing a common and passportable licence at EU level for certain forms of SCF, including factoring, seems to be an easy, sensible and quite Solomonic solution, but on closer inspection, the Study itself already points out on p. 96 that such a licence „would have to be tailored to the specificities of supply chain finance activities and operators", thereby outlining the main (and major) difficulty behind this issue and the Study's proposed solution. The EUF will therefore continue its deliberations and discussions on this issue, also against the background of this newly published Study.

The Study also mentions some other legal issues such as the Late Payments Directive 2011/7/EU and to a certain extent also the directive (EU) 2019/633 on unfair trading practices in business-to-business relationships in the agricultural and food supply chain, both of which have been subjects of scrutiny in the EUF, particularly in the EUF Legal Committee. Especially the review of the LPD is likely to continue being a focus of the EUF Legal Committee's work in 2020 and possibly also coming years.

All in all, this ***SCF Study shows that the EUF has become an accepted source of knowledge and point of reference for information on the European factoring industry***, also through its publications such as the EUF Legal Study and the EUF Whitepaper. However, the EUF will not rest on its laurels but rather use this Study as an incentive to analyse where and how it can improve its work further in order to better promote the interests of the European factoring industry, while simultaneously of course monitoring the impact this Study has on the legislative bodies and agenda of the EU.

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Factoring in the time of COVID-19

DIEGO TAVECCHIA
Chairman of the PRC Committee

The COVID-19 outbreak has had a sudden and unbelievable effect on the lives of everyone and has "changed the world", if only (hopefully) for a short time! The economic impacts of the measures taken by the Governments all over the world are shaping a future of uncertainties, where lots of businesses will go back to work with 2 months completely lost, and some will never open up again. Governments are tackling these issues with unprecedented resolution and scale.

In this context, it is on the cards that the next months will bring to, at least, the following: 1) a significant increase of debt; 2) a sudden deterioration in economic and "normal" creditworthiness indicators, 3) an increase in working capital needs of businesses, as the number days taken by businesses to pay their payables is already increasing, and the insolvency of the buyers is now an even more concrete possibility.

There is the risk that factoring will be "the canary in the mine" of the crisis to come. As soon as debtors face difficulties in paying their payables, factors will face in turn the need to balance the interests of the debtors with that of the client, and find a proper solution to keep supporting both the side of the transaction and maintain control of credit risk, from a sound and prudent management perspective.

Yet, ***on the other hand, factoring and supply chain finance have exactly what it takes to be the immediate and most important support to the businesses' liquidity.***

Exploiting their potential will require that
1) European institutions and Government recognize that factoring is crucial for the real economy,
2) that factoring is properly involved in the supporting business liquidity and
3) that supervisory authorities show increased flexibility in the application of regulatory requirements.

There are a number of things that Governments may want to introduce in order to support their SMEs, such as: i) removal of any ban on assignment, ii) simplification and digitalization of the assignment process, iii) introduction of a public guarantee on assigned receivables for when the factor extends the payment terms, and so on…

AN INCREASE IN WORKING CAPITAL NEEDS OF BUSINESSES, AS THE NUMBER DAYS TAKEN BY BUSINESSES TO PAY THEIR PAYABLES IS ALREADY INCREASING, AND THE INSOLVENCY OF THE BUYERS IS NOW AN EVEN MORE CONCRETE POSSIBILITY

On the side of Supervisory Authorities, a lot has been already done in the perspective of flexibility. Apparently, however, such flexibility has been used to adapt existing regulation and postpone some regulatory duties. I believe the current times require a little more courage also in the action of Supervisors in order to support banks and supervised financial companies to keep supporting the liquidity in the real economy.

In particular, I believe the "elephant in the room" nowadays is the new definition of default and materiality threshold. I have already commented in the past about the ***dramatic impact of such measures*** (not only) ***on factoring, due to the uncritical consideration of payment delays in trade relationships***. Such impact (which recent impact studies have assessed to affect about 30% of the receivables portfolio of the factoring companies) is going to be exacerbated even more dramatically in the current environment, where working capital will be under unprecedented stress.

The time doesn't seem right to have such a tightening in the regulatory framework: without appropriate measures, businesses and especially SMEs will see liquidity drying up just when they need it the most, as factoring companies and banks will have to be increasingly severe with payment delays in order to avoid the explosion of the NPLs due to the new rules.

The EBA, the European Commission, the Council and the European Parliament should address this issue immediately, considering at ***the very least a postponement of the entry into force of the Delegated Regulation 2018/171 on the materiality thresholds, expected at end 2020, and of the EBA Guidelines on the definition of default, expected at 1° January 2021***. Even more importantly, the ***EBA should take this time to work along with the EUF in order to get an appropriate interpretation for the treatment of exposures to purchased receivables within the existing rules***. If not, a crucial source of liquidity for the real economy could be critically damaged.

> ***WITHOUT APPROPRIATE MEASURES, BUSINESSES AND ESPECIALLY SMEs WILL SEE LIQUIDITY DRYING UP JUST WHEN THEY NEED IT THE MOST, AS FACTORING COMPANIES AND BANKS WILL HAVE TO BE INCREASINGLY SEVERE WITH PAYMENT DELAYS IN ORDER TO AVOID THE EXPLOSION OF THE NPLs DUE TO THE NEW RULES.***

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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