5 October 2023

Re.: Consultative Document of the Basel Committee on Banking supervision on Core principles for effective banking supervision, dated July 2023

Dear Madam or Sir,

The **EU Federation for the Factoring and Commercial Finance Industry (EUF)** is the industry body and voice for the European factoring industry (EU transparency register no. 39275004756-35). The EUF's members and partners consist of 13 national factoring and commercial finance associations (representing in the EU [in alphabetic order] Austria, Belgium, Croatia, the Czech Republic, Denmark, France, Germany, Greece, Italy, the Netherlands, Poland, Portugal and Spain) as well as the international factoring association FCI and the UK and Norway as partners.

It is in its role as the representative body of the European factoring and commercial finance industry that the **EUF wishes to provide feedback on the Consultative Document of the Basel Committee on Banking supervision on Core principles for effective banking supervision, dated July 2023, and issued for comment by 6 October 2023.**

1. A short overview of factoring and commercial finance in the EU

Factoring and commercial finance (FCF) are generic terms for a range of asset based finance services which include factoring, invoice discounting, international factoring, supplier finance/reverse factoring and asset based lending, all of them providing funding based upon receivables.

If credit protection is part of the factoring agreement, it is referred to as "non-recourse" factoring, while a factoring agreement where the credit risk on the debtor remains with the seller is called "with-recourse" factoring. The factoring company will often also undertake all credit management and collections work. Factoring appears as a blend of services.

In 2022, the factoring industry in the EU provided over €310 billion of working capital financing to almost 301,000 businesses. As repeatedly shown by EUF research and surveys[1], factoring clients are mostly SMEs and principally businesses in the manufacturing, services and distribution sectors.

The amount of working capital provided by the European factoring industry has to be seen in relation to the total factoring turnover, which in 2022 was over € 2,3 trillion. In relation to the total GDP of Europe, the

[1] cf. the EUF White Papers of 2016 and 2019 on Factoring and Commercial Finance at https://euf.eu.com/what-is-euf/whitepaper-factoring-and-commercial-finance.html

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factoring industry turnover represented more than 12% of EU GDP in 2022., which demonstrates the importance of factoring in the EU real economy.

It is against this background that we wish to comment on the Consultative Document of the Basel Committee on Banking supervision on Core principles for effective banking supervision, dated July 2023

2. Comments on Consultative Document of the Basel Committee on Banking supervision on Core principles for effective banking supervision, dated July 2023

EUF welcomes the opportunity given to comment on the updated Core principles for effective banking supervision, in particular as regards climate-related financial risks.

Given the raising awareness on ESG linked matters, such as environmental concerns, the EUF welcomes the introduction of targeted changes to explicitly reference climate-related financial risks, notably for CP 8 Supervisory approach & CP 10 Supervisory reporting (supervisors to consider climate-related financial risks in their supervisory methodologies and processes), CP 15 Risk management process (banks to have comprehensive risk management policies and processes for all material risks, including climate-related financial risks), CP 26 Internal control and audit (banks to consider climate-related financial risks as part of their internal control framework). The EUF also welcomes the inclusion of "bank business model sustainability" in the Core principles (p11, 02.21, p32, 40.19).
EUF considers that those matters have indeed to be included in the scope of supervision, without prejudice to maintaining a high level of innovation and a culture of entrepreneurship and free enterprise.

The industry is ready to accompany the climatic transition but recalls that in itself factoring doesn't fund the acquisition of an asset but needs for working capital. This characteristic ranks rather factoring in the funding of every day life of businesses than of climate related strategic exposures and limits the capacity of factors to orientate the businesses activities towards ESG investments.

In any case, EUF considers that attention should be given to the fact CIs have to find the fine tuning between accompanying the funding of the climatic transition and maintaining an appropriate support to classical activities in the current context of high inflation and still hesitant post covid recovery. In that perspective, reporting duties of CIs, as far as climate-related risks are concerned, but also sustainability matters, should be appropriately calibrated and duties for mid and small size institutions should be proportionate to the risks effectively borne and to the sizes of the lenders (see p35, 40.24, on Supervisory reporting : "(…) the supervisor has the power to require banks to submit information (…) that allows for the assessment of the materiality of climate-related financial risks (…)").

From that perspective, the sentence p 11 of the consultation document (02.18) : "Both bank and supervisory practices may consider climate-related financial risks in a flexible manner, given the degree of heterogeneity and evolving practices in this area", together with CP 8 (40.18) : "An effective system of banking supervision requires the supervisor to develop and maintain a forward-looking assessment of the risk profile of individual banks and banking groups, proportionate to their systemic importance;" open the door to the application of a form of proportionality principle, highly welcome by the industry, but in any case to be articulated with a guarantee of level playing field for entities performing the activities with the same levels of risk.

Supervision requirements should indeed warrant a level playing field and set the basis for a comparable level of requirements for entities performing the same activities with the same levels of risk. Shouldn't it be the case, some actors would be at an advantage and, with the benefit of less stringent rules, could be in the position of gaining market shares, but spreading widely non resilient infrastructures and the seeds of future crises. On that account, EUF welcomes the warning p 19 concerning Nonbank financial Institutions (NBFIs) which engage in some bank-like activities (20.18): "However, the assessment report should, at a minimum, mention any activities in which NBFIs have an impact on the supervised banks and the potential problems that may arise as a result of non-bank activities".

Please do not hesitate to contact the EUF should you have any queries regarding the aforementioned viewpoints or require more information on the factoring industry in Europe.

With kind regards

Fausto Galmarini
Chair
EUF

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