EUFederation
Factoring & Commercial Finance

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To: Mr. Klaus WIEDNER
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Ref.: Position Paper of the EU Federation for Factoring on the NSFR

Dear Madam,
Dear Sirs,

The EU Federation for the Factoring and Commercial Finance Industry (EUF) is the Representative Body for the Factoring and Commercial Finance Industry in the EU. It is composed of national and international associations for the factoring and commercial finance industry that are active in the EU, representing over 97% of the industry turnover. It is in this role that the EUF wishes to share with you some concerns regarding the Net Stable Funding Ratio.

As you know, factoring is a flexible form of finance which is secured by way of assignment or purchase of receivables, widely used by the European SME's: the EU factoring market's turnover of the year 2014 was close to 1,4 trillion € and almost 173 billion € of funding were granted to over 164.000 European businesses. The duration of the exposure is directly connected with the duration of the assigned receivables, which is normally below 90 days; being a form of self-liquidating receivables finance, factoring represents a short term operations, with all inflows and outflows usually falling into the 3 months bucket and, moreover, companies do not simply provide financing against the invoice, but rather by acquiring receivables in return for payment: therefore, liquidity problems are not to be expected in the factoring industry. However, as about 93% of the total factoring turnover is made by banks or non-banking companies being part of a banking group, the factoring industry will definitely be affected by the liquidity risk control measures introduced by the CRR and, in particular, by the LCR and NSFR.

The EUF already advised the EBA, the European Commission and the Basel Committee on Banking Supervision about the fact that the LCR and NSFR rules are not appropriate for the factoring and commercial finance industry and therefore should not apply to specialized business models like factoring or at least should provide relief for the specialized institutions according to the specificities of the product (see the attached letters).

With regard to the former (LCR), the European Commission recognized the specificities of factoring and provided an exemption from the inflow cap for specialized factoring institutions.

With regard to the latter (NSFR), the EUF would like to stress the fact that the regular activities of factoring companies does not encompass the collection of deposits and therefore any possible liquidity risk in factoring is mainly due to the mismatch between the assets and the (short term) liabilities' duration. This mismatch, however, is notably lower in factoring than in commercial banking, due to the short duration of the receivables on the asset-side and also due to the absence of a demand or withdrawal of deposits on the liabilities' side. Therefore, factoring companies could not meet the requirements of the NSFR without facing severe financial constraints: the obligation to borrow at one year's maturity in order to be able to finance at three months' maturity or even less would lead to reverse transformation and furthermore make hedging mechanisms regarding interest rate risks necessary, thereby creating additional and unnecessary financial and administrative costs. Moreover, such a rule could be penalizing when factoring companies are part of banking group: in these cases, the liquidity is often granted by parent banks, so that the funding is, by definition, very stable for the single entity.

Therefore, the EUF wishes to reiterate its request for a better balance of the NSFR rule for factoring institutions, in order to avoid disruptive effects on specialized business models like factoring and commercial finance and strongly advocates the following amendments:

- to reduce the 50% Required Stable Funding (RSF) factor required for factoring exposures:

The current run-off rate of 50% provided for loans with residual maturity of less than one year is not consistent with the liquidity risk profile of factoring, as the average duration of the lending provided by factors is actually a short term one, linked to the maturity of the purchased receivables, usually up to 90 days. RSF factor could be set in the range of 0-10% for factoring lending with residual maturity below 6 months and a 15-25% RSF factor range for factoring transactions between 6-12 months in duration.

- to increase, at least for specialized business models, and in particular for factoring institutions or factoring business lines in banking groups, the Available Stable Funding (ASF) factor for wholesale funding from central banks and financial institutions with a residual maturity of less than six months:

Factoring companies which are not banks do not hold deposits; their funding is therefore based on the wholesale market or, for factors owned by a banking group, on the liquidity granted by the parent company.

With the current rule, almost all the funding of the advancing of short term receivables would be weighted with a 0% factor. Provided that specialized institutions, as stated above, tend to manage liquidity risk by reducing the maturity mismatch between assets and liabilities, such a situation would be extremely negative for the FCF industry. From another point of view, it is also worth noting that the combination of the 0% ASF factor provided for liabilities with a residual maturity of less than 6 months with the 50% RSF factor required for loans with a residual maturity of less than one year would lead to a negative maturity transformation as factors would be compelled to fund short term lending with an average duration up to 90 days with a 50% funding maturing at more than 6 months. Even though the need to limit overreliance on short-term wholesale funding is understandable, the EUF believes that the detrimental effect on the institutions specialized in factoring clearly outweighs the benefits.

- to provide a specific and favorable treatment for short term funding granted by the parent company, where the specialized business is carried out in a banking group:

In addition to an increase of the ASF factor for short term liabilities, a more favorable treatment for short term funding granted by the parent company is desirable and consistent with the nature of the liability as within a stress scenario, the EBA recognizes intragroup liquidity to be more stable than third party funding. Specialization in short term business models, as well as the low credit and liquidity risk related to the factoring industry, can counterbalance any increase in complexity and interconnection within the banking system, thus ensuring that the overall systemic risk is not increased.

These amendments are proposed in order to set up a better balanced rule and to prevent the risk that the NSFR rule ends up, eventually, in a significant and unjustified increase in the cost of such crucial working capital financing source for the SMEs.

The EUF would be delighted to have a constructive meeting with the EBA, as successfully experienced in the past, in order to discuss the abovementioned issues and proposals.

For your information we also include a copy of a recent position paper on the same subject sent to you by the ASF (Association Française des Sociétés Financières).

With kind regards,

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John Gielen
Chairman – EUF

[1] EBA, "Report on impact assessment for liquidity measures under Article 509(1) of the CRR", December, 20th 2013, page 13.

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