EUFederation
Factoring & Commercial Finance

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NEWSLETTER

Our Seventh Edition:

Basel III and CRD IV

Factoring vs Banking: How they compare in the real economy

Getting the Industry Voice heard by the EU Regulators

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EUF: the face of the European Factoring and Commercial Finance Industry…

Dear Members and Beneficial Owners,

It's a real pleasure for me to welcome you to this Spring 2014 edition of the EUF Newsletter.

I am delighted to have been invited to spend a third term as your Independent Chairman following the vote at the recent Annual Members Meeting held in Brussels. For those of you who came to the Cercle de Lorraine, thank you and I hope the bomb scare and the preparations for President Obama's visit didn't distract you too much!

At the Meeting we also said an early goodbye to Kate Sharp who has done an excellent job as Vice Chairman, bringing all her knowledge, experience and skills as the CEO of the UK and Ireland's ABFA. Kate was one of the founders of the EUF and we will certainly miss her! We wish her good luck in her new role in the UK.

We therefore have a new Vice Chairman and I am delighted to welcome Erik Timmermans into the role. Erik too was one of our founding figures and his global perspective from IFG will be particularly valuable in helping guide our work.

Meanwhile, the business of the EUF goes on! Inside you will find Maggie Wessel's update on the ever busy Legal Committee; we are indebted to her and the committee members for their outstanding contribution to the EUF's activities.

Diego Tavecchia, Chairman of the Economics and Statistics Committee shows us how the role of Factoring and Commercial Finance continues to grow, comparing us graphically and dramatically with bank funding in the period since the crash – this is a clear demonstration of how our industry is increasingly important in the funding of SMEs and the real economy.

And it's a great pleasure for me to introduce our newest work group, the Prudential Risk Committee which is being very ably chaired by Peter Mulroy from FCI. The PRC will be focusing on the impacts and issues arising from the practical implementation of the regulations increasingly affecting our Industry. Working hand in glove with the Legal Committee they will be seeking to ensure that our voice is heard and that any changes take full account of the special nature of our methods of funding.

Our first assessment of 2013 shows that across Europe as a whole Industry turnover grew around 5% to approximately €1.25 Trillion. Although the picture from country to country varied, this clearly demonstrates Factoring and Commercial Finance is a serious element of the economy and this scale is an important factor in our discussions with the EU regulatory and lawmaking bodies.

We are also looking forward to the soon to be finalised FINEST report which the EUF has commissioned to look at the detailed impact our Industry has (initially) across the largest economies. This will further highlight the importance of our Industry. Watch this space!

I wish you well and great business!

John Gielen, EUF Independent Chairman

EUF: The Legal Committee

"Latest developments for the Legal Committee"

Magdalena Wessel: Chairman of the Legal Committee

Since the last EUF newsletter in autumn 2013, the EUF Legal Committee (LC) has been particularly busy dealing with issues surrounding the implementation of Basel III and the CRD IV-package. Together with the recently founded Prudential Risk Committee (PRC), the LC has drafted several position papers concerning the regulation of liquidity risks through the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) and their effects on the factoring and commercial finance industry. Also, the undersigned attended a public hearing of the EU Commission on March 10, 2014 on the delegated acts regarding the LCR as well as a bilateral meeting with representatives of the EU Commission a few weeks later. It still remains to be seen whether the first results of these meetings, which can be considered as cautiously positive for the factoring and commercial finance industry, will be reflected in the delegated acts which the EU Commission is to present in summer 2014.

Another issue with which the LC was confronted in late 2013 and early 2014 were the current works of the European Committee for Standardisation which is developing a European standard for e-invoicing, especially for public procurements. There are many jurisdictions across the EU where the transfer of a receivable to a new creditor requires the debtor's notification in order for the transfer or assignment to be legally valid. This is the case in e.g. Belgium, Denmark, Greece and Sweden. The necessary notification can be effected in different ways, one consisting in informing the debtor of the assignment through a reference in the invoice. If this invoice is an e-invoice, difficulties can arise and have already done so in the past.

In some EU member states, difficulties with public authorities have come up when trying to include the notification of the assignment in the e-invoice, often because the IT-system of the notification's recipient (i.e. the debtor) is not able to handle the notification. However, the explanatory memorandum to the proposed directive states that the uptake of e-invoicing in all relevant sectors should be facilitated and that barriers

caused by insufficient e-invoicing interoperability are to be removed. Therefore, the EUF has sent a position paper in which it advocates that the new common European standards for e-invoicing need to allow the assignment of the receivables which form the basis of invoices.

A third issue which was the cause of some disconcertment just before Christmas and well into the new year had to do with the prevention of money laundering and terrorist financing: As an AML-requirement, the Bank of Italy decided to require Italian factoring companies to undertake full and formal KYC checks on all debtors, regardless of whether a direct contractual relationship with these debtors exists or not. The clear and immediately perceivable negative effects this decision would have not only on the Italian factoring companies, but also on Italian factoring clients, mostly SMEs, as well as the evident undermining of a European level playing field in the area of AML-requirements resulted in a letter from the EUF to the Italian factoring association. In this letter, the EUF stated that the Bank of Italy's decision did not seem risk based at all and that it was contrary to guidelines interpreting the AML-requirements from e.g. the UK, Germany and France, which all clarify that the debtor is not the customer for AML-purposes and therefore generally does not have to undergo a full and formal KYC-process.

Over the next months, the issue of the CRD IV-package's implementation as well as the works on the proposal for a new AML-directive will remain on the top of the LC's agenda, with issues such as shadow banking and the works on the new data protection regulation close on their heels. The LC will therefore also continue its close cooperation with the PRC on some of these issues.

The input from all associations that are members of the EUF to the LC's work is very welcome. More information on the Legal Committee and its work can be found on the website www.euf.eu.com, with exclusive information on e.g. individual meetings of the Legal Committee in the "members only"-section.

EUF : The Economics and Statistics Committee

The recovery of the European economy and the role of factoring

Diego Tavecchia: Chairman of The Economics And Statistics Committee

The factoring industry provided an extraordinary support to the working capital of the European firms during the crisis: factoring turnover in the European Union grew about 49 per cent in the period (from 2008 and 2013), reaching a record level of 1,260 billions of €, while in the same period the amount of short term loans provided by the banks of the Euro area dropped around 23 per cent.

Although it is not consistent to compare statistics which are different in nature - turnover (flows) vs loans (stock) - and in sample - EU vs Euro area, this comparison still may be useful to provide an idea about the role played by the factoring industry during the years of the crisis.

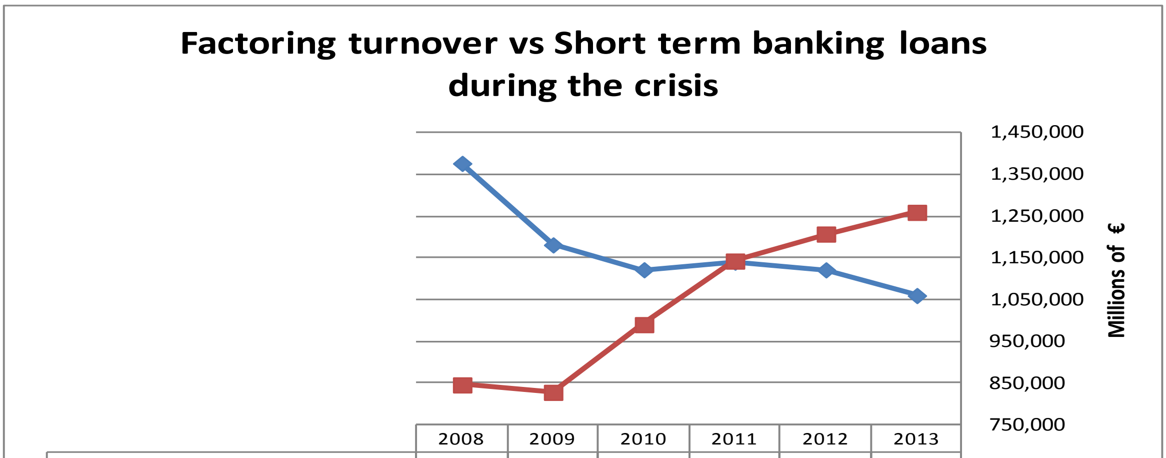
According to the latest OECD estimates, after falling to 2.7 per cent in 2013, the world GDP growth will rebound to 3.6 per cent this year, with an acceleration of the growth in the US, in the UK and in the emerging Countries, while the recovery in the Euro Area will be modest, fragile and uneven across the Countries.

Provided that factoring effectively supported the firms during the crisis, what kind of role can it play during the recovery, and in particular in this first stage, so frail and uncertain? The literature on financial intermediation suggests that factoring can play, again, a leading role in supporting the initial recovery after the crisis: indeed, at this stage, the working capital needs of the businesses are even more than during the crisis, due to the fact that they now have to finance new investments in sales and stocks to catch up the occasions raising from the recovery. The quality of the projects demanding a loan (in terms of future cash flow) is growing but still remains opaque: the lender faces

again many difficulties in understanding clearly the real worthiness of the project and in estimating accurately the cash flow stemming from the business of the borrower.

This generates a situation in which the lender keeps his borrower selection criteria very strict, although the quality of the borrowers is now better, and therefore may not be able to catch the good opportunities arising from the recovery, whilst the borrower may remain without finance and therefore might not be able to develop its business, thus slowing down, from a macro perspective, the recovery itself. In this situation, just as during the crisis, factoring can help in overcoming these market failures and reaching a win-win situation: indeed, factoring reduces the asymmetric information between the lender and the borrower through its asset-based nature and the establishment of a close relationship with the borrower. The practical effects are that i) the risk for the lender is reduced, and ii) the borrower is able to raise the wished amount of finance at better conditions.

The role of factoring, therefore, does not run out with the end of the crisis, but on the contrary the operators of the factoring industry can preempt commercial banks in financing the good businesses during the initial stage of the recovery, supporting and even boosting the recovery of the European economy.



	2008	2009	2010	2011	2012	2013
Banking Loans Up to 1 year to Non-financial corporations (Euro Area)	1,376,875	1,181,297	1,121,652	1,139,918	1,121,415	1,059,780
Factoring Turnover (Total EU)	845,368	827,516	989,953	1,142,502	1,207,326	1,259,344

EUF: The Prudential Risk Committee

Addressing the practical implementation of regulation

Peter Mulroy: Chairman of the PRC Committee

Hi, I'm Peter Mulroy and it's great to be able to write to you in this Spring newsletter to introduce the Prudential Risk Committee and its work.

The PRC was established in Sept 2013 by the EUF Executive Committee to create a forum of practioners to determine the general business and economic impact from implementation of prudential regulatory requirements.

We want to be able to address the growing regulatory requirements assessed on the Receivable Finance & Factoring industry in the EU and importantly better predict future trends in our industry that could result in future regulatory scrutiny, both in terms of risk, liquidity, disclosure and general oversight. Having assessed these issues and trends, we want to communicate our findings with our members, solicit opinions, and build consensus.

So why do we need a PRC? I think there is a number of reasons that make it important:

- Research and determine whether proposed European regulations will have an adverse impact on the industry.
- Support the EUF mission to spread knowledge of the Receivable Finance and Factoring industry to our regulators and policy makers,
- Act as key prudential risk ambassadors to the factoring industry on such matters as Basel III, KYC-AML, Shadow Banking, etc…
- Enhance the speed in which we learn of initiatives within the EU. Information will naturally come from the members. But we need to create a network in order to have our ears closer to the ground.
- Solicit various opinions from our members and thought leaders (and specifically the EUF member's constituents). This is to ensure awareness and to prepare a unified response to the governing bodies within the EU in order that they are heard and that their opinions are considered.

- Create best practice as it relates to the implementation and execution of these regulations within the factoring industry.
- Understand what is being developed outside Europe, which could have a contagion (or beneficial!) effect on regulatory policies within the EU.

So there is much to do. And the rest of 2014 is going to be busy. We will be working in close harmony with our colleagues in the Legal Committee to address:

- LCR/NSFR (CRD-IV) – Attend meeting with European Commission and Leaseurope
- Basel Committee – Develop a study to create "ammunition" in defence of the industry to prove factoring is a low risk asset class. Similar to the ICC approach, create empirical evidence that demonstrates the industry's resilience even in the most economic depressed times
- Outreach/develop cooperation with other leading global organizations engaged in regulatory assessments ie. BAFT/IFSA, CBA, ABA, ICC
- Shadow Banking
- KYC/AML (both EU-directive and national)
- Monitor and review changing accounting definitions of factoring.

Watch this space! I'm looking forward to reporting progress next time round!

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EUFederation
Factoring & 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.