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F.14 Treatment of Factoring Transactions

Prepared by the Financial and Payments Systems Task Team (FITT)

INTERNATIONAL MONETARY FUND

F.14 Treatment of Factoring Transactions¹

The treatment of factoring² in macroeconomic statistics needs further guidance. Factoring transactions are widely used in domestic and international trade, as part of supply chain finance. The aim of this guidance note (GN) is to propose sound options for the statistical treatment of different modalities of factoring in the national accounts and external sector statistics. Following the global consultation, the drafting team members support Option 2.4 proposing that the claim against the debtor be classified as loan and the factors' income as a fee for non-recourse factoring, and Option 3.1 proposing the treatment of recourse factoring as non-recourse factoring. The GN recommendations apply only to cases when there is a specialized entity (financial intermediary) acting as a factor. Factoring carried out by nonfinancial parties are not within the scope of the GN.

SECTION I: THE ISSUE

BACKGROUND

- 1. Factoring is a transaction in which a financial company (factor, which can be a bank, a specialized factoring company, or other financial organization) buys trade accounts receivable from a supplier at a discount.** The accounts receivable concerned are non-tradable trade-related receivables arising from the provision of goods, services, or work in progress. Factoring is the modern equivalent of the old practice of trade bill discounting (with banks or other discount houses), in a world that has gradually shifted trade finance away from trade bills (bills of exchange, the workhorse of trade finance for centuries) towards open accounts trading (where invoices lead to a simple claim of the supplier towards the buyer/debtor).
- 2. Factoring belongs to the broader category of “Receivables Finance”, where a supplier receives an early discounted payment for his trade account receivables.** Such transactions help bridge the trade cycle funding gap, settling the conflicting needs of the seller and the buyer, and are performed by specialized financial institutions or by commercial banks. Trade finance instruments are an important tool for companies to manage their working capital and facilitate the growth of international trade (e.g., the specific case where the supplier is an exporter, and the buyer is an importer).³
- 3. There are two basic types of factoring: recourse and non-recourse factoring.** In a non-recourse agreement, the factor assumes the full risk of non-payment by the debtors at maturity and therefore charges the supplier a higher percentage of the receivables (“discount”) than in other arrangements where part of the risk is kept by the supplier (recourse factoring). In this kind of deal, the

¹ Prepared by Philippe de Rougemont (Eurostat), Mher Barseghyan (Central Bank of Armenia, until August 2021; and IMF, since then), Emmanuel Ssemambo (Bank of Uganda), and Cornelia van Wersch (ECB, until August 2021).

² Factoring is an agreement between a financial intermediary (“the factor”) and a supplier of goods/services (initial “creditor”), in which the factor purchases accounts receivable at a discount from the supplier (“creditor”) and handles the collections of the receivables from the buyers (“debtors”). Annex II provides detailed explanations of factoring transactions and relevant terminology.

³ Trade financing instruments are discussed in [IMF WP/19/165](#).

supplier immediately receives the full amount of the trade credit/accounts receivable net of the discount and does not have any additional obligation.

4. **In a recourse agreement, in contrast, the factor will hold the supplier partly or fully responsible for uncollectable receivables from the debtors at maturity (“recourse liability”).** In practice, the factor pays at first only a percentage of the accounts receivable to the supplier and retains the remaining part in “reserve” as a sort of collateral. After actually collecting the invoices from the debtor, the factor passes the residual reserve amount (net of the negotiated discount) to the supplier. Should the debtor default for an amount in excess of the reserve, the supplier would have to pay back to the factor part or all (up to the “recourse liability” foreseen in the contract) of the already advanced amount of cash (also called “buy back of invoices from the factor”) plus any interest/fee due.

5. **These two basic versions of factoring transactions may present a wide variety of conditions or variations across or within jurisdictions.** There might be explicit fees in contracts beside the discount, partial recourse or full recourse, significant reserves or no reserve, explicit nominal interest accruing on funds provided, conditions limiting the liability of supplier, etc.

6. **In both cases, factoring is commonly viewed as a purchase/sale of invoices, meaning that the legal right of the claim on the debtor is transferred to the factor.** This is the core difference with “invoice discounting” or any other form of collateralized lending often called “Loan/Advance-based trade financing”, where invoices are merely provided as a collateral to a loan from the factor. The latter does not suppose the transfer of claims to the factor, the accounts receivable being paid back by the debtor to the supplier and the invoice just serves as collateral for a loan provided by the factor to the supplier.

7. **Current guidance in the sixth edition of the *Balance of Payments and International Investment Position Manual (BPM6)* and the *System of National Accounts 2008 (2008 SNA)* is limited and its applicability is subject to compilers’ interpretation.** Paragraph 5.72 of the *BPM6* states that trade credits sold to third party should be reclassified as other accounts receivable/payable by the supplier (see Annex I). Thus, invoices on balance sheets of factors should be classified as other accounts receivable/payable. Paragraph 6.10 of the *2013 External Debt Statistics: Guide for Compilers and Users (2013 EDS Guide)* states the same. The *2008 SNA* does not discuss factoring transactions but mentions factoring services in the list of services that specialized financial corporations can provide.

8. **In contrast, the monetary and financial statistics (MFS) tend to classify claims arising from factoring as loans.** The *2019 Manual on Monetary and Financial Institution Balance Sheet Statistics* of the ECB, with graphical examples of factoring (4.3.9.15), recommends classifying the factoring instruments as loans.⁴ It also suggests different treatments for the counterpart debtor according to the type of factoring (in the case of recourse factoring the loan is against the supplier, in the case of non-recourse factoring the loan is against the debtor). Paragraph 4.99 of the IMF’s *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)* requires that export bills discounted entail a loan to the debtor, which could be interpreted as implying a loan recording for factoring in general.⁵

⁴ “The factoring company, which may be a monetary and financial institution (MFI), buys the receivables at a price which is lower than the face value of the invoice, thereby effectively charging the applicable fees and interest. MFIs acting as factoring companies should record their factoring operations as loans.”

⁵ However, it can also be argued that the export bill is a different instrument, and its treatment is not necessarily applicable to factoring.

9. **The IMF's Government Finance Statistics Manual 2014 (GFSM 2014) provides limited guidance in footnote 64 (paragraph 7.225) on recording of non-recourse factoring.** The recommendation is to classify non-recourse factoring transactions (where the debtor is a government agency) as loans. Eurostat provided more detailed guidance on recording of factoring transactions involving government agencies⁶ recommending the same as the *GFSM 2014*.

10. **The current treatment in the BPM6 of the discount earned by factors also needs clarification.** Given that the *BPM6* paragraphs 3.82 and 9.33 suggest valuing the stock of other receivables at nominal value and reconciling it with the transactions, it can be argued that the discount on factoring is presumably to be recorded as a valuation change and not as an income/sale. The manuals do not provide any exceptions to this general rule for factoring transactions or any additional guidance on how to classify them. Indeed, *BPM6* paragraph 3.82 states that: "*For loans, deposits, and other accounts receivable/payable sold at a discount, the transaction values recorded in the financial account may differ from the nominal values recorded in the international investment position. Such differences are recorded as valuation changes in the other changes in financial assets and liabilities account.*" However, some drafting team members of the Guidance Note (GN) underscore that the *BPM6* does not or may not necessarily imply this recording for factoring transactions, because factor's income/output should be recognized in line with the fundamental principle that financial intermediaries are producers.

11. **Although the International Financial Reporting Standard (IFRS) 9 does not mention factoring explicitly, it provides some useful business accounting guidance.** It recommends that the asset on the balance sheet of the factor should be recognized based on amortized costs and the income of the factor should accordingly be recorded as interest, be calculated by using the effective rate, and be accrued over time.⁷ However, factoring transactions do not only consist of the provision of funds, but also of services of money collection and accounting for payments.

ISSUES FOR DISCUSSION

12. **Two issues are discussed separately regarding the treatment of factoring claims and related flows:** the treatment of factoring transactions in general, and whether the recourse factoring requires a different treatment. Answers to questions on how to classify factoring instruments, value stocks, and treat the income of the factor are provided for each issue.

Issue 1. Treatment of Factoring Transactions and Claims

13. **In non-recourse factoring, there is a true sale of a trade receivable by the supplier, which does not have any further involvement in the contract from that point onwards.** Factoring is mentioned in *BPM6* paragraph 5.72 as outright sale of the invoices by the supplier to the factor: "*A supplier may also sell trade claims other than trade bills to a factoring company, in which the claim is reclassified from trade credit to accounts receivable/payable.*" Instead, the MFS tend to suggest that the factoring transaction should be recorded as a loan in the factor's balance sheet. A single treatment should be suggested in macroeconomic statistics, answering the question whether the positions between the

⁶ Eurostat Decision of 2012 and Eurostat [GFS interpretation "Some aspects of factoring operations" published on 28.09.2021](#).

⁷ See Annex V for accounting practice descriptions.

factor, supplier, and debtor are to be classified as loans, trade credits, deposits (in case of the existence of the so-called “reserve”), or other accounts receivable. When an instrument other than trade credit is chosen for the receivables acquired by the factor, a relevant issue is whether the corresponding instrument reclassification should be done by way of other changes in volumes or by way of transactions.

14. **The factor makes its earnings by paying to the supplier less than the face value of the invoice.**⁸ Although the difference between the nominal value and the selling price should generally be recorded as revaluations in the SNA/BPM (for instruments to be measured at nominal value), this is not necessarily applicable in the case for factoring because the factor makes a business of purchasing these claims and in doing so it faces running costs as well as funding costs. It is therefore appropriate to record the discounts as factor’s income/sale: as a remuneration of the intermediation activity it undertakes. Not doing so would imply having a producer with operational costs but with no income/sale, particularly with no output in national accounts, therefore exhibiting an anomalous gross operating surplus.

15. **Whether factoring is seen as a financial source benefiting the supplier or the debtor would influence the classification of the factoring instrument, the discount, the reserve, and the recourse.** The nature of factoring seems not to entail any direct economic benefit to debtor given that the supplier is usually the party actively seeking factoring and deciding on the receivables to be exchanged against the funds received from the factor. The effect of factoring in the balance sheet of the supplier is reflected only on the assets side—it improves the liquidity of the supplier’s working capital by receiving cash against receivables, but at the same time maintaining its debt/equity, debt utilization, and equity ratio levels.

16. **Nevertheless, factoring can also be seen as a trilateral arrangement in which the debtor is the party being financed.** The debtor is aware that the liability is discounted with the factor (acceptance). The so-called “reverse factoring”⁹—an increasingly common practice—indeed supports this view. In this type of factoring arrangements, the debtor takes the initiative to approach the factor. Therefore, it can alternatively be argued that exactly because it is initiated by the debtor and not the supplier, reverse factoring is a different instrument to factoring.

17. **While reverse factoring is a different instrument in terms of business model, it still has the same accounting characteristics as the ordinary factoring.** Business accounting for such instruments follows the same principles of the ordinary factoring, and the general statistical treatment for factoring should be applied to reverse factoring as well. Therefore, the case of reverse factoring is an additional argument to support debtor financing options discussed in the following section of the GN.

⁸ The treatment of income and classification of instruments are discussed in more details in Annex VII.

⁹ Reverse Factoring, also known as Approved Payables Finance, is a buyer-led and arranged financing program for designated suppliers in the supply chain. The buyer’s creditworthiness allows the supplier to receive an early discounted payment for the accounts receivables, typically without recourse. The buyer will pay the due amount directly to the finance provider. As with factoring, the assets are changing ownership from the suppliers to the financial intermediary.

Issue 2. Treatment of Recourse Factoring

18. **Recourse factoring should be discussed separately to answer two questions.**¹⁰ The first question is whether the accounts receivable under recourse are deemed to stay on the supplier's books (in effect vis-à-vis the original debtor) until the end of the factoring contract, reflecting that the economic risks remain with the supplier. Therefore, no change towards the debtor should be recorded. Funds provided by the factor to the supplier should be treated as a liability of the supplier, and the income receivable by the factor should be recorded as interest.

19. **The other question is how the recourse and the reserve should be treated if the recourse factoring is seen as a true sale.** Under recourse factoring, the factor holds some amount net of the discount as "reserve", in case the debtor(s) fully or partially fails to meet its obligation. The reserve represents a claim of the supplier towards the factor or, alternatively, (partitioning of the invoice approach) towards the debtor/buyer representing part of the economic risk that remains with the supplier. While in the first case the reserve could be seen as a collateral, in the second case the classification of the reserve should be clarified.

20. **Given that the reserve claim can be seen as not changing ownership, a trade credit for the reserve part can be considered to remain in the balance-sheet of the supplier.** However, it can be argued that the nature of the instrument has changed given that a factoring transaction has taken place. The reserve should then be reclassified from trade credit to another instrument category similar to the part not covered by the reserve (and leading to a claim from the factor to the debtor). It is important to note that the recourse liability (amount for which the supplier keeps the risk of non-collectability) can be a different amount from the reserve amount (which represents the amount that the factor holds until full repayment of the contract) and that the difference between the recourse and the reserve can also be considered as remaining in the balance-sheet of the supplier and changing its instrument classification (see Annex II for clarifications on key definitions).

OPTIONS TO CONSIDER

21. **The drafting team considered the following options to address the two issues discussed above:**¹¹ Option 1 and Options 2.1—2.4 for the treatment of factoring transactions and claims (Issue 1) and Options 3.1—3.3 for the treatment of recourse factoring (Issue 2). The reclassification method at inception of factoring contracts (transactions or other volume changes) can be applied to any option. More detailed discussion on the proposed options is provided in Annex III and numerical examples provided in Annex IV.¹²

22. **Option 1 proposes to keep the status quo and clarify that BPM6 paragraph 3.82 on the treatment of "other accounts receivable/payable sold at a discount" is applicable to factoring.** Under this option, the current BPM6 guidance would be regarded as sufficient to properly classify

¹⁰ Alternative views on the treatment of recourse factoring are further discussed in Annex VI.

¹¹ As already discussed in paragraph 17, all options apply to both ordinary factoring and reverse factoring transactions.

¹² Examples are presented in Annex IV to illustrate the recording in the balance of payments and the IIP under each proposed option.

factoring transactions: (a) reclassify claims sold to other accounts receivable/payable; (b) value stocks at face value (minus any repayment on invoices plus any other nominal/contractual interest/fee receivable from buyer except the discount); and (c) rather than recording the discount as income (e.g., in the current account), keep recording it as valuation changes (in the integrated international investment position (IIP)). The discount earned by the factor is thus excluded from income/sale. This option also proposes that the *BPM7* should include more details on how to classify and value claims bought/sold by factoring transactions following the existing guidelines. The same recommendation would apply to the updates of the *2008 SNA* and the *MFSMCG*. If Option 1 is chosen, then imputation for factors' assets in their balance sheet should be made.

23. **The following options for the non-recourse factoring are proposed to reflect different views on the treatment of income and the classification of instrument.** The claim of the factor is always against the debtor, as there is an undisputable transfer of claim from the supplier (true sale).

Option 2.1: The factoring claim against the debtor is treated as other accounts receivable, and the factoring income as a fee paid by the supplier. The factoring transaction is classified as an outright sale to the factor. The factor is seen as providing a service of discounting to the supplier, similar to cheque discounting or payment facilitating services.

Option 2.2: The factoring claim against the debtor is treated as other accounts receivable, and the factoring income as interest paid by the supplier. The factor is seen as providing funds to the supplier; hence, the income should be treated as interest, despite the fact that there are no liability/asset positions between the factor and the supplier.

Option 2.3: The indirect financing by the factor to the debtor is treated as a loan, and the factoring income as an interest paid by the debtor and fees paid by the debtor and the supplier. Factoring is seen as a trilateral arrangement where the debtor and the supplier have implicitly jointly agreed on the financing. Additional calculations should be done for financial intermediation services indirectly measured (FISIM) paid by the debtor and an adjustment should be made in the goods and services account (see Annex III and Annex IV for more details).

Option 2.4: The indirect financing by the factor to the debtor is treated as a loan, and the factoring income as a fee paid by the supplier. This is a compromise option between Option 2.1 (the factor's income as a fee) and Option.2.3 (the factor's claim as a loan owed by the debtor).

24. **Table 1 summarizes the options for the treatment of non-recourse factoring.**

Table 1. Treatment of Non-recourse Factoring

Option	Factor's Claim	Factor's Income	Who pays Factor's Income	FISIM	Other Treatments
Option 2.1	Other accounts receivable	Fee	Supplier	No	
Option 2.2	Other accounts receivable	Interest	Supplier	No	No positions between supplier and factor
Option 2.3	Loan	Interest and fee	Debtor	Yes	Adjustment to goods and services account (see Annex III and IV)
Option 2.4	Loan	Fee	Supplier	No	

25. **The following options are proposed for the treatment of recourse factoring.** As there are also reserve and recourse, additional guidance is required for their classification. The following options on recourse factoring are discussed.

Option 3.1: Recourse factoring is treated in the same manner as non-recourse factoring. Therefore, the selected Option 2 for the non-recourse factoring would also be applicable to recourse factoring contracts. Under this option the recourse should be regarded as a guarantee granted by the supplier, and the reserve as a collateral held by the factor.

Option 3.2: Recourse factoring is treated as a loan provided to the supplier. Calculations for FISIM should be applied under this option. The liability of the debtor to the supplier remains as trade credit. The reserve and the recourse are not recorded in the macroeconomic statistics.

Option 3.3: Recourse factoring is treated as a partial outright sale of the invoices corresponding to the part beyond the recourse liability. The amount of up to the recourse liability remains under the ownership of the supplier as it carries the risk of un-collectability vis-à-vis the debtor. In case the reserve is lower than the recourse liability, this difference would constitute a cash advance and is to be recorded as accounts payable by the supplier to the factor. The discount earned by the factor is treated as a fee paid by the supplier.

SECTION II: OUTCOMES

26. **The drafting team rejected Option 1 as the current guidance in the manuals is not sufficient for proper recording of factoring transactions in macroeconomic statistics.**¹³ The current/implicit treatment of factoring transactions in the *BPM6* and the *2008 SNA* should be clarified in relation to the income received by the factor, so to adequately recognize its role as producer (financial intermediation services). Many countries at the moment classify factoring as a loan and, correspondingly, the income on such transactions is reflected in income accounts as an interest. Furthermore, Option 1 is at odds with business practices and accounting standards (that include the discount as interest/fee in the factors' financial statements). It is also considered that the discount earned by the factor should be recorded as income/sale, and not as revaluation, in recognition of the factor's role as financial intermediary, implying recording financial services.

27. **This interpretation can also be supported by the 2008 SNA paragraphs 6.160c and 6.170–6.174 (also European System of National and Regional Accounts (ESA 2010) paragraph 3.73) related to the implicit fees charged on securities transactions carried out by traders, whereby purchase and resale prices are to be partitioned so to recognize a service component.** Thus, the *2008 SNA* and the *ESA 2010* explicitly prescribe classifying as income earnings by security traders what would be classified as revaluations in other circumstances. A similar guidance could be considered for factors' income related to factoring discount. It is worth noting that the rule that creates an exception to revaluation recording applies only to certain specialized units that are seen as financial intermediaries. This treatment is also analogous to the treatment of merchants in general in the *SNA/BPM*, where the purchase for resale at a higher price is considered output/income and not holding

¹³ One member of the drafting team argued that this should not be an option and suggested that in case this option is considered, it should include the recommendation to clarify that *BPM6* paragraph 3.82 was misinterpreted.

gain on inventories (unless a genuine price change occurred, in which case some differences in sale prices will enter revaluations).

28. **The options proposing the treatment of factors' income as a fee were preferred by most of the drafting team members.** Option 2.1 (claim against the debtor classified as other accounts payable) was supported by all (except one) as it has some advantages compared with other options. Regarding the classification of the instrument, it follows the current treatment in the *BPM6*. In addition, the assumption of implicit financing of the debtor may be attractive in cases of large transactions, but the final decision is generally made by the supplier. Therefore, it makes sense to consider that the source of factor's income is the supplier and not the debtor. Moreover, the factor is seen as providing a service in the form of a discount charged as a "lump-sum" factor fee for providing fast cash. In the absence of an actual claim against the supplier, interest does not seem to be a correct treatment of factoring discount. For the same reasons regarding the treatment of factor's income, one drafting team member supported Option 2.4 whereby the claim against the debtor is classified as a loan but the income from the supplier is a fee.

29. **The assumption that the supplier is the active party seeking and receiving the direct economic benefit of the factoring—via the improvement of its working capital—may facilitate the decision on the classification of the factoring instrument.** Under this assumption, other accounts receivable seems to be more suitable for classification of the factoring claims in the absence of a claim against the supplier. The compromise in Option 2.4 reflects the alternative view of factoring as a trilateral agreement. Hence, in that case, the loan seems to be a more preferable choice for the classification of the factoring instrument.

30. **Options 2.2 and 2.3 were not recommended.** Option 2.2 was rejected as there is no mutual claim/liability between the supplier and the factor, while the discount is treated as interest. Despite its intellectual merits, Option 2.3 was also not favored because the three-way partitioning of the discount that it entails appears too complex. Revision of trade data is also required under this option, which creates additional burden on compilers.

31. **Most of the drafting team members supported Option 3.1—the treatment of recourse factoring as non-recourse factoring.**¹⁴ The main argument is the fact that the recourse is not an actual liability of the supplier. It is activated only in rare cases of a non-payment by the debtor. Hence, the nature of recourse is seen as a guarantee, which becomes an actual claim after called. The reserve is seen as collateral held by the factor until the end of the factoring contract and treated as a liability of the factor vis-à-vis the supplier. The fact that the factor directly collects the flows associated with the contract supports the view that there is a true sale of claims by the supplier to the factor.

32. **One drafting team member, however, favored a different treatment of the recourse liability.** The recourse should be treated following the principle of economic ownership. The risks are essentially transferred to the factor (outright sale of these invoices) except for the "recourse liability" (i.e., those invoices for which the economic risk of uncollectability effectively remains with the supplier vis-à-vis the debtor until the end of the factoring contract).¹⁵ If (i) the debtor pays in full, the supplier receives the

¹⁴ Alternative views for treatment of the recourse factoring are presented in Annex VI.

¹⁵ The recourse liability is like a provision for bad debt—for which the supplier is solely responsible.

residual cash in return for the residual accounts receivable; and if (ii) the debtor defaults, the account receivable needs to be written off in the supplier's books as well as the debtor's books (not the factor's books) for the recourse liability. This would reflect that the economic risks (and ownership) of the asset for the remaining accounts receivables stays with the supplier until the end of the factoring contract. In cases where the recourse is larger than the reserve, the difference should be treated as a cash advance and recorded as other accounts payable by the supplier to the factor.¹⁶ At the end of the recourse period, if the bad debt is larger than the reserve then the supplier has to pay the difference between the bad debt (up to the recourse liability) and the reserve to the factor, and the other way around, if the reserve is larger than the bad debt then the supplier receives this difference.

33. The drafting team also showed strong support for making reclassification via the recording of transactions rather than other changes affecting positions. As all three parties (supplier, factor, and debtor) are involved in the transaction, the reclassification itself is seen as a repayment of a trade credit and creation of a new liability. Even if Option 3.3 is preferred, the part of the contract that remains under economic ownership of the supplier should be reclassified to other accounts receivable via the recording of transactions. The same judgements apply to the recourse when it becomes an actual claim on the supplier.

34. FITT consultation also showed support for rejecting Option 1 and providing additional guidance for adequate treatment of factoring transactions. Four members preferred Option 2.1 for the non-recourse factoring (the option recommended by the drafting team), suggesting the inclusion of clear practical guidance in the updated BPM Compilation Guide. One member supported Option 2.3 with a modification (assuming that the interest is being paid by the supplier and not debtor). FITT members also supported the reclassification via transactions, rather than other volume changes, except for one of them who did not have a clear preference. Regarding the recourse factoring, Option 3.1 was supported by three FITT members commenting on the GN, and Option 3.3 was supported by one member.

35. One FITT member supported Option 2.3 for the factoring contract to be classified as a loan to the supplier and expressed disagreement on the proposed classification of factoring contracts as other accounts receivable/payable. It is considered that the factor (a financial institution) is providing credit to the supplier (the seller of receivables). This credit, in the form of a non-tradable instrument, should be classified under loans, with a fee and implicit interest, the latter being the most important income component. Following this reasoning, other accounts receivable/payable should not accommodate an entire financial intermediation business model such as factoring.¹⁷ The classification under other accounts receivable/payable would also lead to excluding factoring from the credit aggregates of the other financial corporations and therefore, underestimate the credit extended by the financial sector to the rest of the economy. For the purposes of broader macro-stability policy analysis, this FITT member noted that the issue could be relevant in the context of an increasing focus on the non-bank sector (i.e., in understanding the credit to other sectors of the economy and non-residents).

¹⁶ See Example Option 3.3.

¹⁷ According to this FITT member's view, factors engage in maturity transformation by providing immediate funding to the holders of receivables in exchange for a non-tradable instrument to be redeemed at maturity that should be classified as loans.

36. **In addition to clarifying the treatment of factoring transactions with and without recourse, other trade finance instruments should also be elaborated on, either in the updated manuals or relevant compilation guides.** Examples for related financing instruments can be found in [BOPCOM 17/21](#).

SECTION III: ADDITIONAL CONSIDERATIONS BASED ON PUBLIC CONSULTATIONS AND CURRENT COMPILATION PRACTICE

37. **Although the majority of respondents supported Option 2.1 during the global consultation, there was strong opposition against recording the factoring claim as other accounts receivable/payable, both by the number of responses and by the strength of some of their arguments.** One-third of respondents had preference for loans, largely based on current practice accepted in the MFS and GFS. Many of them refer to the guidance in the Eurostat Decision of 2012 and the *2019 Manual on Monetary and Financial Institution Balance Sheet Statistics* of the ECB.

38. **An important conceptual argument hitherto not sufficiently explored is that other accounts receivable/payable in the SNA are rather restricted to certain situations and should not accommodate an entire financial intermediation business model.** *The 2008 SNA* paragraph 11.127 lists several categories that are included in *Other accounts receivable-Other* (taxes, dividends, purchases and sales of securities, rent, wages and salaries, and social contributions), which expressly do not relate to the provision of goods and services.

39. **In addition, the current practice in most countries is to record factoring as loans in macroeconomic statistics.** Such an approach is consistent with the accounting recording of factoring on the balance-sheets of financial institutions and with the guidance in MFS manuals (both the IMF's and the ECB's). While not mentioning factoring directly, the IFRS 9 also suggests recording factoring based on amortized value and accruing an interest based on effective rates similar to loans. The UN Handbook of National Accounting: Financial Production, Flows and Stocks in the System of National Accounts also states in paragraph 4.409 "*Trade credits and advances do not include loans to finance trade. These are classified in loans, but any "sale" normally as factoring would lead to the reclassification of a trade credit to a loan between the new creditor and the existing debtor.*"¹⁸ The Eurostat's treatment for factoring transactions in GFS¹⁹ recommends classifying the non-recourse factoring as a loan and the discount as a fee. Several countries outside the Europe also classify factoring transactions as loans.

40. **Different combinations of the residence of the debtor, supplier, and factor may provide additional evidence for the existence of an implicit financing of the debtor by the factor.** In cases where there is a cross-border claim between the factor and the debtor, the factor would presumably perform a creditworthiness assessment of the debtor similar to the process of granting a loan. If the transaction is conducted by a captive intragroup financial institution (acting as a factor) for fellow enterprises, it becomes similar to financing of the debtor within the group and would therefore be classified as a loan.

¹⁸ In paragraph 4.407 b, it also states that "Trade credit accepted by factoring corporations except when regarded as a loan".

¹⁹ GFS interpretation published on 28.09.2021 "Some aspects of factoring operations", on factoring without recourse.

41. **Based on the considerations above, including the new arguments, the majority of the drafting team (3 out of 4) proposes to change the recommended option from Option 2.1 to Option 2.4.** The authors concluded that the recording of factoring as a loan is a better compromise in terms of conceptual considerations and consistency with the current accounting and data compilation practices. Changing the current recording practice would require additional resources from compilers while the conceptual advantage is questionable.

Questions for Discussion:

- 1) *Do you agree with the GN proposal on rejecting Option 1 and instead considering other options discussed in the GN for the statistical treatment of the non-recourse and the recourse factoring?*
- 2) *If the answer to question 1 is yes, which option do you prefer for the statistical treatment of non-recourse factoring (Options 2.1—2.4)?*
- 3) *If the answer to question 1 is yes, which option do you prefer for the treatment of recourse factoring (Options 3.1—3.3)?*
- 4) *Do you agree that the instrument reclassification from trade credit to loans/other accounts receivable should be recorded as a transaction in the financial account rather than as other changes affecting positions?*
- 5) *Do you consider that the other types of supply chain finance need further guidance in BPM7 or its Compilation Guide?*

Annex I. Supplementary Information

BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION MANUAL, SIXTH EDITION (BPM6)

3.82 For loans, deposits, and other accounts receivable/ payable sold at a discount, the transaction values recorded in the financial account may differ from the nominal values recorded in the international investment position. Such differences are recorded as valuation changes in the other changes in financial assets and liabilities account (see also paragraph 9.33).

3.86 Loan positions are recorded at nominal value. The use of nominal values is partly influenced by pragmatic concerns about data availability and the need to maintain symmetry between debtors and creditors. In addition, because loans are not intended for negotiability, without an active market, estimating a market price can be somewhat subjective. Nominal value is also useful because it shows actual legal liability and the starting point of creditor recovery behavior. In some instances, loans also may be traded, often at discount, or a fair value may exist or would be possible to estimate. It is recognized that nominal value provides an incomplete view of the financial position, particularly when the loans are nonperforming. Therefore, information on the nominal value of nonperforming loans should be included as a memorandum or supplementary item (see paragraph 7.50 for the definition of nonperforming loans). Loans that have become negotiable de facto should be reclassified under debt securities (see paragraph 5.45 for criteria for reclassification).

3.87 Positions on deposits and accounts receivable/payable are also recorded at nominal value. They give rise to the same issues of nominal and fair values as loans. Deposits at banks and other deposit-taking corporations in liquidation also should be recorded at their nominal value until they are written off. If significant, however, such deposits should be shown separately as a supplementary item. The same treatment is applicable for any other cases of impaired deposits (i.e., where the deposit-taking corporation is not in liquidation but is insolvent).

5.72 Trade credit and advances do not include loans to finance trade made by an institutional unit other than the supplier of the good or service, as they are included under loans.⁹ Trade bills drawn on an importer and provided to an exporter, which are subsequently discounted by the exporter with a financial institution, might be regarded by the importer as the direct extension of credit by the exporter, but once they are discounted they become a claim by a third party on the importer. In cases in which an instrument is provided to the exporter with such characteristics that it is a negotiable instrument, it should be classified as a security. A supplier may also sell trade claims other than trade bills to a factoring company, in which the claim is reclassified from trade credit to accounts receivable/payable.

⁹ Trade-related credit is identified as a concept in *External Debt Statistics: Guide for Compilers and Users*, Chapter 6, Further External Debt Accounting Principles. It consists of trade credit as well as trade bills and credit provided by third parties to finance trade. It should be compiled as a supplementary item, where significant.

9.33 Nominal valuation is used for positions in nonnegotiable instruments, namely loans, deposits, and other accounts receivable/payable (see paragraphs 7.40–7.44). However, when transactions in these instruments do occur, they are valued at market prices (see paragraph 8.12), with transaction prices often

being less than the nominal values, because the market price takes account of the possibility of default. To account for the inconsistency between the market valuation of transactions and nominal valuation of positions, the seller records other price changes during the period in which the sale occurs, equal to the difference between the nominal and the transaction value and the buyer records an opposite amount as other price changes.

***IMF (2014), BALANCE OF PAYMENTS AND INTERNATIONAL INVESTMENT POSITION
COMPILATION GUIDE***

9.96 Nominal valuation is used for positions in nonnegotiable instruments —namely, loans, deposits, and other accounts receivable/payable. However, when transactions in these instruments do occur, they are valued at market prices, with transaction prices often being less than the nominal values, because the market price takes account of the possibility of default. To account for the inconsistency between the market valuation of transactions and nominal valuation of positions, the seller records other price changes during the period in which the sale occurs, equal to the difference between the nominal and the transaction value. The buyer records an opposite amount as other price changes. Information on such transactions may be available from a debt database or register maintained by authorities or from the books of the creditor/debtor.

10.84 Loan positions are recorded at nominal value; deriving transactions from positions data is The Financial Account 167 therefore relatively straightforward for loans denominated in domestic currency, with the issue of addressing price changes not applicable. However, for loans (as well as for deposits and other accounts receivable/ payable) sold at discount, the transaction values recorded in the financial account may differ from the nominal value recorded in the IIP. Such differences are recorded as valuation changes in the other changes in financial assets and liabilities account.

***IMF (2016), MONETARY AND FINANCIAL STATISTICS MANUAL AND COMPILATION GUIDE,
WASHINGTON, DC***

4.98 A bill of exchange is an unconditional order written and signed by one party (drawer of the bill), requiring the party to whom it is addressed to pay on demand, or at a fixed or determinable future time, a specified sum to order or to the bearer. Bills of exchange—sometimes called trade bills or simply bills—are most often associated with foreign trade, but also may be used for domestic trade. Bills of exchange are often called sight drafts or time drafts, depending on whether payable on demand or payable by a specified future date. A bill of exchange is an order to pay, rather than a promise to pay. When it is received and “accepted”—stamped and signed—by the party on whom it is written (i.e., the drawee), the bill of exchange becomes a promissory note and is designated as an acceptance.

4.99 An acceptance is classified within loans, debt securities, or trade credit, depending on the characteristics of the credit instrument. Those acceptances that are eligible for rediscounting in a secondary market or by a central bank are usually known as bankers’ acceptances and classified as debt securities (see paragraph 4.62). Acceptances ineligible for rediscounting are designated as other acceptances and are classified as loans or trade credit depending on the nature of the acceptance. The loans and debt securities created through acceptances include:

a. Exporter credit. The drawer (exporter) may hold the acceptance and, at maturity, receive payment (usually channeled through the exporter's bank) from the drawee (importer). The drawer would classify the acceptance as a trade credit claim on the drawee.

b. Export bill. Instead of holding the acceptance, the drawer (exporter) may rediscount the acceptance at a DC. If ineligible for further rediscounting, the acceptance should be classified as a loan that the DC has extended to the drawee (importer). If eligible for rediscount in the bankers' acceptances (BA) market and/or at the central bank, the acceptance should be classified within debt securities and, for purposes of sectoral classification, should be attributed to the economic sector of the drawee (importer), who is the original issuer.

c. Import bill. An importer may arrange an acceptance that calls for the exporter to be paid from the proceeds of a loan that the importer obtains from an ODC that will make the payment. The credit advanced to the importer is classified as a loan by the ODC. The loan remains in the DC's loan portfolio until repaid by the importer.

d. Banker's acceptances. Export and import bills that meet the BA eligibility requirements are sold to BA investors, principally to FCs, NFCs, and nonresident institutions. For classification by debtor, the BA should be attributed to the economic sector of the drawee of the bill of exchange. For example, the BA based on an export bill drawn on an importer should be classified within debt securities issued by nonfinancial corporations (assuming the importer is a nonfinancial corporation). The purchaser of a BA that originated as an import bill drawn on an ODC should classify the BA within debt securities in the subcategory for claims on ODCs.

e. Own acceptances. A DC may repurchase its own acceptances that it earlier issued in the bankers' acceptance market. Holdings of own acceptances, representing a DC's liability to itself, should be deducted from the liability account for bankers' acceptance outstanding. The repurchased own bankers' acceptance can be reintroduced as a debt security, if the DC decides to rediscount them in the bankers' acceptance market during the remaining term to maturity.

SYSTEM OF NATIONAL ACCOUNTS 2008 (2008 SNA)

3.144 A less obvious mingling of transactions occurs when the provision of an asset and the related money payment or payments do not take place simultaneously. When the time gap becomes unusually long and the amount of trade credit extended is very large, the conclusion may be that implicitly an interest fee has been charged. In such extreme cases, the actual payment or payments should be adjusted for accrued interest in order to arrive at the correct value of the asset transferred. Such adjustments are not recommended for normal trade credit.

ECB (2019), MANUAL ON MFI BALANCE SHEET STATISTICS

4.3.9.15 Factoring and project finance

Factoring refers to a transaction whereby an MFI purchases accounts receivable (i.e., invoices) from a third party. Specifically, it is the sale of a firm's (the factoring client's) claims (in full or in part) recorded

under accounts receivable (in the form of invoices), representing money due from its customers, to a financial institution known as a factoring company. The factoring company, which may be an MFI, buys the receivables at a price which is lower than the face value of the invoice, thereby effectively charging the applicable fees and interest. The factoring company (in this case the reporting MFI) manages the sales ledger and the collection of the accounts under the terms agreed by the factoring client (firm). The customers send their payments directly to the factoring company (reporting MFI). Finance is therefore extended for the duration of the trade debt. MFIs acting as factoring companies should record their factoring operations as loans. Factoring may also be referred to as trade receivables or invoice discounting, but the following guidance applies only where the factoring company is the reporting MFI who purchases accounts receivable from a third party. Forfeiting operations are treated analogously to non-recourse factoring.

The factoring company (MFI) may assume the full risk of default by the customer (non-recourse factoring), or this risk may be retained by the factoring client, in which case the factoring company is able to hold the factoring client liable if a debtor is unable to pay (recourse factoring). In particular, in recourse factoring the factoring company (MFI) buys the receivables at a discount to the face value of the invoice. This discount is retained as collateral to cover the risks associated with the operation. Upon payment of the invoices by the customers, the factoring company transmits the proceeds net of the advanced cash and the applicable fees and interest charges to the factoring client. In non-recourse factoring, however, the factoring company (MFI) assumes the full risk of default by the customer and fees and interest are therefore charged immediately to the factoring client, who receives the full amount of the trade credit net of these charges.⁷⁴ For the purposes of counterparty sector classification in non-recourse factoring, the customers are the counterparty as the factoring company (MFI) assumes the risk. In recourse factoring, the ultimate debtor is the factoring client (firm) who should then be the counterparty of the loan. Factoring operations should be recorded at the value of the invoice less the discount retained as collateral (as per example A below), as opposed to fair valuation as allowed under international accounting standards.

⁷⁴ Fees and interest charges of non-recourse factoring are usually higher than those of recourse factoring, owing to the different service provided and risk borne by the factoring company.

Assets arising from project finance are also recorded as loans. Project finance refers to loans provided to entities which were created specifically to finance and/or operate physical assets and where the primary source of repayment of the obligations is the income generated by the assets being financed, rather than the independent capacity of a broader commercial enterprise.

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3.2.3 An entity shall derecognise a financial asset when, and only when:

- (a) the contractual rights to the cash flows from the financial asset expire, or
- (b) it transfers the financial asset as set out in paragraphs 3.2.4 and

3.2.5 and the transfer qualifies for derecognition in accordance with paragraph 3.2.6.

(See paragraph 3.1.2 for regular way sales of financial assets.)

3.2.4 An entity transfers a financial asset if, and only if, it either:

- (a) transfers the contractual rights to receive the cash flows of the financial asset, or
- (b) retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions in paragraph 3.2.5.

3.2.5 When an entity retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), the entity treats the transaction as a transfer of a financial asset if, and only if, all of the following three conditions are met.

- (a) The entity has no obligation to pay amounts to the eventual recipients unless it collects equivalent amounts from the original asset. Short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.
- (b) The entity is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as security to the eventual recipients for the obligation to pay them cash flows.
- (c) The entity has an obligation to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the entity is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents (as defined in IAS 7 Statement of Cash Flows) during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

3.2.6 When an entity transfers a financial asset (see paragraph 3.2.4), it shall evaluate the extent to which it retains the risks and rewards of ownership of the financial asset. In this case:

- (a) if the entity transfers substantially all the risks and rewards of ownership of the financial asset, the entity shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.
- (b) if the entity retains substantially all the risks and rewards of ownership of the financial asset, the entity shall continue to recognise the financial asset.
- (c) if the entity neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the entity shall determine whether it has retained control of the financial asset. In this case:
 - (i) if the entity has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer.
 - (ii) if the entity has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset (see paragraph 3.2.16).

4.1.2 A financial asset shall be measured at amortised cost if both of the following conditions are met:

- (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and
- (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

5.1.1 Except for trade receivables within the scope of paragraph 5.1.3, at initial recognition, an entity shall measure a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

5.4.1 Interest revenue shall be calculated by using the effective interest method (see Appendix A and paragraphs B5.4.1–B5.4.7). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

(a) purchased or originated credit-impaired financial assets. For those financial assets, the entity shall apply the credit-adjusted effective interest rate to the amortised cost of the financial asset from initial recognition.

(b) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the entity shall apply the effective interest rate to the amortised cost of the financial asset in subsequent reporting periods.

5.4.2 An entity that, in a reporting period, calculates interest revenue by applying the effective interest method to the amortized cost of a financial asset in accordance with paragraph 5.4.1(b), shall, in subsequent reporting periods, calculate the interest revenue by applying the effective interest rate to the gross carrying amount if the credit risk on the financial instrument improves so that the financial asset is no longer credit-impaired and the improvement can be related objectively to an event occurring after the requirements in paragraph 5.4.1(b) were applied (such as an improvement in the borrower's credit rating).

effective interest rate - The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset or to the amortised cost of a financial liability. When calculating the effective interest rate, an entity shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see paragraphs B5.4.1–B5.4.3), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Annex II. Factoring Transactions and Terminology

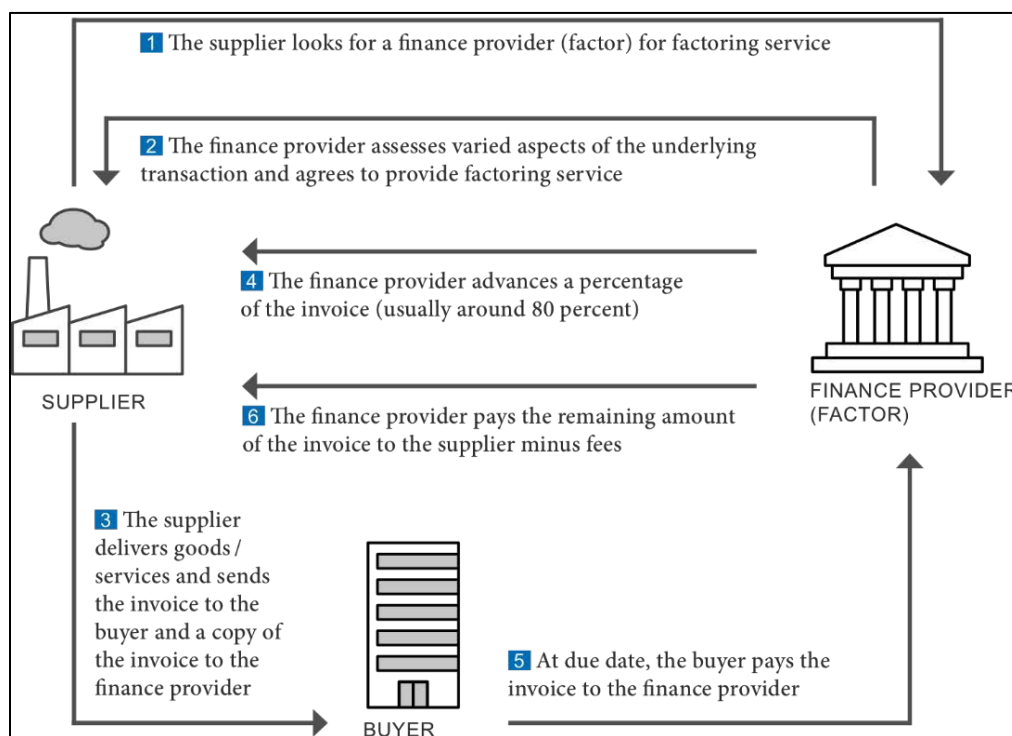
Factoring Transactions

1. **Trade finance is an umbrella term encompassing a range of financial products that companies utilize to bridge their trade cycle funding gap and improve their working capital.**

Factoring, in specific, belongs to the category of Receivables Finance where the supplier exchanges his outstanding trade credit for an early discounted payment by selling his invoices (accounts receivables) to a factor. A factor can be part of large multinational banks with specialized trade finance divisions, local commercial banks, or non-bank lenders with exclusive focus on trade finance.

2. **There are two types of factoring: recourse and non-recourse factoring.** In a non-recourse agreement, the factor assumes the full risk of non-payment by the debtors at maturity and therefore charges the creditor a higher percentage of the receivables (“discount”, i.e., fees and or interest charges) than in recourse factoring. The creditor immediately receives the full amount of the “trade credit”/accounts receivable net of these charges. In a recourse contract, however, the factor will hold the creditor partly or fully responsible for uncollectable receivables from the debtors at maturity: Practically, the factor pays at first only a percentage of the accounts receivable to the creditor and retains the remaining part (“recourse liability”) as a reserve. After collection of the invoices from the debtor, the factor passes the residual reserve amount (net of the discount) to his client, the creditor. Would the debtor default with an amount beyond the reserve amount, the creditor would have to pay back to the factor parts or all of the already advanced amount of cash (also called: “buy back the invoices from the factor”).

Figure 1. Factoring Transactions



Factoring Terminology

Table 2. Factoring Terminology

Term	Definition
Supplier (buyer, creditor, exporter)	Unit that provides goods, services, or implements work that is in progress to debtor
Debtor (importer, purchaser)	Unit that purchases goods, services or order works from supplier
Bill	A non-negotiable document that confirms the liability of Debtor against the supplier for provision of goods, services or works in progress.
Factor	Financial institution, that purchases bill from supplier
Factoring	Trade finance instrument, when factor buys the bill from supplier
Reserve	Amount of invoice under recourse factoring contract, that the factor holds until full repayment by the debtor.
Recourse	Amount for which the supplier retains the risk of uncollectability under recourse factoring. If the debtor fails to pay it's debt, the factor has right to claim unpaid amount not exceeding the recourse amount from the supplier.
Non-recourse factoring	Agreement, when the bill is sold to factor by supplier. The factor takes all benefits and risks associated with the bill. The supplier does not have any obligation regarding the bill.
Recourse factoring	Agreement, when the bill is sold to factor by supplier, but the factor still have right of full or partial recourse claim on supplier if the debtor fails to pay back the bill or part of it.
Nominal value	The value outstanding amount that the debtor owes to the supplier (to factor after the purchase), which is composed of the outstanding principal amount including any accrued nominal interest. (to factor after the purchase)
Discount	The difference between nominal principle value and the transaction value in factoring transactions

Annex III. Details of Discussions on the Proposed Options

1. **Two questions should be discussed to determine possible solutions and constructing options.** The first one (Option 1 and Option 2) is whether the current status quo should be maintained. If not, then sub-options should be regarded reflecting different views on classification of income earned by factor, classification of instrument, reserve, and the recourse. The second issue (Option 3) discusses possible solutions on treatment of recourse factoring. Calculations are presented in separate file aimed to present not only basic treatment under each sub-options but also some additional calculations based on different size of recourse and reserve.

Issue 1. How to Classify the Discount Earned by Factor, the Instrument, the Recourse, and the Reserve

2. **Option 1: Keep the status quo and add some additional clarifications. Clarify that paragraph 3.82 regarding the treatment of “other accounts receivable/payable sold at a discount” is applicable to factoring.** Otherwise, the current *BPM6* provides sufficient guidance to classify factoring transactions, that is (a) reclassify sold claims as other accounts receivable/payable, (b) value stocks at face value (minus any repayment on invoices plus any other nominal/contractual interest/fee receivable from buyer except the discount), and (c) rather than recording the discount as income (e.g., in the current account), keep recording it as valuation changes (in the IIP). The discount earned by the factor is thus excluded from income/sale. In *BPM7*, there should be a small paragraph giving more details on how to classify and value claims both/sold by factoring transactions. The same recommendation should be included in SNA update and recommended in MFS. If Option 1 is chosen, then imputation for factors' assets in their balance sheet should be made.²⁰

3. **Option 2: Treat the discount as a transaction in external accounts and SNA.** Add additional guidance on factoring transactions and clarify that the discount is to be recorded as income/sale, in the BPM/SNA. Four sub-options are suggested. Under each sub-option, one should keep in mind that the supplier and factor use different accounting rules to account the income (by factor) and the expense (by supplier). Therefore, under each option, statistical techniques should be applied to reflect the fee/interest immediately (Options 2.1, 2.4), or to accrue it during the maturity of instruments (Options 2.2, 2.3), and changing classification of instrument from fee to interest, and vice versa.

- a. **Option 2.1: The factor is seen as providing a service of discounting to the supplier, similar to cheque discounting or payment facilitating services.** The claim should be classified as other receivables/payables. The income should be treated as fee rather than interest by both the factor and the supplier. The factors claim is valued at its face value immediately after transaction. (See Option 2.1 in Examples)
- b. **Option 2.2: The factor is seen as providing funds to the supplier; hence, the income should be treated as interest.** Same as Option 2.1 except that in factor's accounts, interest is recorded rather than fee against the supplier, despite the fact that there are no liability/asset positions between them. A modality would be to recognize within the observed discount (i) a normal/market discount treated as indicated and (ii) a supplementary discount

²⁰ One drafting team member argued that this should not be an Option and suggested that in case this option is considered, it should include the recommendation to clarify that (i) paragraph *BPM6* 3.82 was misinterpreted.

treated as a purchase of service by the supplier from the factor (like in Option 2.1). The stocks are valued at discounted amount plus interest/fee accrued. (See Option 2.1 in Examples)

- c. **Option 2.3: It is assumed that there is a (indirect) financing of the debtor by the factor.** Factoring is seen as a trilateral arrangement, which means that both the debtor and the supplier have implicitly jointly agreed on the financing. **Such an approach means that the factoring instruments should be reclassified as loans.** The income of the factor should be treated as interest, the source of which being the debtor. A modality would be to recognize within the observed discount (i) a normal discount treated as indicated and (ii) a supplementary discount treated as a purchase of service by the supplier from the factor (like in Option 2.1). This treatment also means that the value of goods provided by the supplier should be decreased by the discount (i), as any normal commercial rebate, and matching interest is payable by the debtor.²¹ This discount on the goods purchased can be rationalized either as remuneration for formally “accepting” the invoice/debt or simply as a normal price discount on a cash-and-carry transaction (*de facto* the supplier is paid upfront). The factors claim is valued at its discounted value (either observed, or the normal discount (i) if split). Because FISIM is applicable to factored claims, the discount is for a large part thereafter recorded as a sale of service by the factor to the debtor. In this option, the reclassification of the trade credit is a priori made in by way of transaction in the financial account (See Option 2.3 in Examples).
- d. **Option 2.4: This is a compromise solution between Options 2.1 and 2.3.** The discount would be recorded as a fee/service paid by the supplier to the factor (like in Option 2.1), while the factor would have a loan against the debtor, recorded by way of transaction (like in Option 2.3) for its face value (like in Option 2.1). The supplier is here deemed to request the factor to extend a zero-interest rate to the debtor, against a payment of a fee. In this case, the loans would not carry interest, as a (necessary) simplification, and would therefore not be subject to FISIM. This approximation is not severe because, under Option 2.3, the factor income is mostly reclassified as output due to FISIM (though sold to the debtor in Option 2.3, while it is sold to the supplier under Option 2.4) (See Option 2.3 in Examples). The stocks are valued at face value of invoice.

Issue 2. How the Recourse Factoring Should be Treated

4. **Option 3: Recourse factoring agreements include additional conditions, which may have impact on decision, how to treat such agreements.** The most important issue is connected with the treatment of recourse, and a minor one is treatment of reserve held by factor. Based on different treatment of recourse and reserve, three alternative solutions are presented.
 - a. **Option 3.1: The recourse is seen as guarantee provided by supplier in rare cases when the debtor fails to meet its obligations.** Under this option the same treatment for

²¹ However, note that this solution entails severe practical difficulties as the supplier has provided goods/services prior to the factoring transaction. The value of the goods/services and output would have to be changed in retrospect. This could entail severe discrepancies.

- classification of the instrument and the discount as in Option 2 should be applied. The recourse should be treated as a guarantee until it is called. The reserve is seen as a collateral and should be treated based on GN 10 outcomes (See Option 3.1 in Examples).
- b. **Option 3.2: The recourse factoring is seen as financing of supplier.** A loan is recognized by factor and supplier, and the interest is calculated on this loan. Respectively FISIM calculation should apply to the interest. There is no change in ownership of invoice, and the claims between supplier and debtor remains as trade credit. The loan is valued at funds provided cost plus interest accrued. The reserve and the recourse do not have any recording in macroeconomic accounts (See Option 3.2 in Examples).
 - c. **Option 3.3: Recognize true sale only for part of invoice, equal to amount not covered by recourse.** The recourse part stays under economic ownership of supplier. Hence, for the amounts transferred to the factor there should be the same treatment as in sub-options under Option 2. If the amount of recourse is greater than the reserve, the difference should be recorded as temporary claim against the supplier (other accounts receivable) (See Option 3.3 in Examples).

Annex IV. Numerical Example for the Proposed Options

1. **Numerical examples show calculations required for the options proposed in the GN.** Option 1 is based on possible current treatment in manual. Reclassification is made via other valuation changes.
2. **In the other examples for Options 2 and 3, reclassification is made via transactions in balance of payments.** It is assumed that supplier paid its liability to factor, when a recourse claim arises, hence, there are transactions of same amount with opposite signs in other accounts receivable against the supplier that offset each other.

Option 1. Status Quo (Reclassifications Are Made Through Other Volume Changes (OVC))			
Invoice value	100		Other accounts receivable=OA
Discount	10		S–supplier, F–Factor, D–Debtor
1. Prior to Transaction			
Assets			
From point of view	Against	Trade credit	
Supplier	D	100	
Debtor			
Liabilities			
From point of view	Against	Trade credit	
Debtor	S	100	

2. Reclassification via OVC					
Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Supplier	D (trade credit)	100		-100	0
Supplier	D (OA)	0		100	100
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	S(trade credit)	100		-100	0
Debtor	S (OA)	0		100	100

3. Transaction						
	Factor		Supplier		Debtor	
Current account						
	Export	Import	Export	Import	Export	Import
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable (transferred amount of invoice)	90		-90			
Cash	-90		90			

IIP recordings

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (OA)	0	90	10	100
Supplier	D (OA)	100	-90	-10	0
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	S(OA)	100		-100	0
Debtor	F(OA)	0		100	100

4. Positions After Transaction			
Assets			
From point of view	Against	OA	
Factor	D		100
Debtor			
Liabilities			
From point of view	Against	OA	
Debtor	F		100

5.1. Full Repayment						
	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable (invoice)	-100					-100
Cash	100				-100	

5.2. Full Non-Payment						
	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable against Debtor						
Cash						

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (OA)	100			100
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F(OA)	100			100

The bankruptcy of debtor

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (OA)	100		-100	0
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F(OA)	100		-100	0

Option 2.1. The Factoring Claim Against the Debtor is Treated as Other Accounts Receivable and the Factoring Income as Fee Paid by the Supplier

Invoice value 100 Other accounts receivable=OA
 Discount 10 S–supplier, F–Factor, D–Debtor

1. Prior to Transaction

Assets			
From point of view	Against	Trade credit	
Supplier	D	100	
Debtor			

Liabilities			
From point of view	Against	Trade credit	
Debtor	S	100	

2. Reclassification via Transactions

	Factor		Supplier		Debtor	
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Trade credit			-100		-100	
Other accounts receivable			100		100	

3. Transaction

	Factor		Supplier		Debtor	
	Export	Import	Export	Import	Export	Import
Current account						
Fee	10			-10		
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable (transferred amount of invoice)	100		-100			
Cash	-90		90			

4. Positions After Transaction

Assets		
From point of view	Against	OA
Factor	D	100
Debtor		

Liabilities		
From point of view	Against	OA
Debtor	F	100

5.1. Full Repayment						
	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable (invoice)	-100					-100
Cash	100				-100	

5.2. Full Non-Payment						
	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable against Debtor						
Cash						

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (OA)	100			100
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F(OA)	100			100

The bankruptcy of debtor

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (OA)	100		-100	0
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F(OA)	100		-100	0

Option 2.2. The Factoring Claim Against the Debtor Is Treated as Other Accounts Receivable and the Factoring Income as Interest Paid by the Supplier.

Invoice value	100	Other accounts receivable=OA
Discount	10	S–supplier, F–Factor, D–Debtor

1. Prior to Transaction

Assets			
From point of view	Against	Trade credit	
Supplier	D	100	
Debtor			

Liabilities			
From point of view	Against	Trade credit	
Debtor	S	100	

2. Reclassification via Transactions

	Factor		Supplier		Debtor	
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Trade credit			-100		-100	
Other accounts receivable			100		100	

3. Transaction

	Factor		Supplier		Debtor	
	Export	Import	Export	Import	Export	Import
Current account						
Interest	10			10		
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable (the invoice)	100		-100			
Cash	-90		90			

4. Positions After Transaction

Assets		
From point of view	Against	OA
Factor	D	100
Debtor		

Liabilities		
From point of view	Against	OA
Debtor	F	100

5.1. Full Repayment						
	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable (invoice)	-100					-100
Cash	100				-100	

5.2. Full Non-Payment						
	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable against Debtor						
Cash						

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (OA)	100			100
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F(OA)	100			100

The bankruptcy of debtor

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (OA)	100		-100	0
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F(OA)	100		-100	0

Option 2.3. The Indirect Financing by the Factor to the Debtor Is Treated as Loan and the Factoring Income as Interest Paid by the Debtor.

Invoice value 100 Other accounts receivable=OA
 Discount 10 Normal interest rate 5%
 S–supplier, F–Factor, D–Debtor

1. Prior to Transaction

Adjustments in goods account

	Factor		Supplier		Debtor	
Current account	Export	Import	Export	Import	Export	Import
Goods			-10			-10
Financial account	NAFA	NIL	NAFA	NIL	NAFA	NIL
Trade credit			-10			-10

Assets

From point of view	Against	Trade credit
Supplier	D	90
Debtor		

Liabilities

From point of view	Against	Trade credit
Debtor	S	90

2. Reclassification via Transactions

	Factor		Supplier		Debtor	
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Trade credit			-90		-90	
Loans			90		90	

3. Transactions over the Period

	Factor		Supplier		Debtor	
Current account	Export	Import	Export	Import	Export	Import
FISIM	5.5					5.5
Interest (against debtor)	4.5					4.5
Financial account	NAFA	NIL	NAFA	NIL	NAFA	NIL
Loans	100		-90			
Cash	-90		90			

3.1. Transaction at Inception						
	Factor		Supplier		Debtor	
Current account	Export	Import	Export	Import	Export	Import
FISIM						
Interest (against debtor)						
Financial account	NAFA	NIL	NAFA	NIL	NAFA	NIL
Loans	90		-90			
Cash	-90		90			

4. Positions After Transactions and Before Redemption		
Assets		
From point of view	Against	OA
Factor	D (loan)	100
Debtor		
Liabilities		
From point of view	Against	OA
Debtor	F (Loan)	100

4.1. Positions After Transaction at Inception		
Assets		
From point of view	Against	OA
Factor	D (loan)	90
Debtor		
Liabilities		
From point of view	Against	OA
Debtor	F (Loan)	90

5.1. Full Repayment						
	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Loan	-100					-100
Cash	100				-100	

5.2. Full Non-Payment						
	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Loan						
Cash						

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (Loan)	100			100

Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F(loan)	100			100

The bankruptcy of debtor

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (Loan)	100		-100	0

Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F(loan)	100		-100	0

Option 2.4. The Indirect Financing by the Factor to the Debtor Is Treated as Loan and the Factoring Income is Classified as Fee Paid by the Debtor.

Invoice value	100	Other accounts receivable=OA
Discount	10	S–supplier, F–Factor, D–Debtor
Non-payment of 15		

1. Prior to Transaction

Assets			
From point of view	Against	Trade credit	
Supplier	D	100	
Debtor			

Liabilities			
From point of view	Against	Trade credit	
Debtor	S	100	

2. Reclassification via Transactions

	Factor		Supplier		Debtor	
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Trade credit			-100		-100	
Loan			100		100	

3. Transaction

	Factor		Supplier		Debtor	
	Export	Import	Export	Import	Export	Import
Current account						
Fee	10			-10		
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Loan	100		-100			
Cash	-90		90			

4. Positions After Transaction

Assets		
From point of view	Against	OA
Factor	D (loan)	100
Debtor		

Liabilities		
From point of view	Against	OA
Debtor	F (Loan)	100

5.1. Full Repayment						
	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Loan	-100					-100
Cash	100				-100	

5.2. Partial Non-Payment of 15						
	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Loan	-100					-100
Cash	85				-85	

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (Loan)	100	-85		15
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F(loan)	100	-85		15

The bankruptcy of debtor

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (Loan)	15		-15	0
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F(loan)	15		-15	0

Option 3.1. Recourse Factoring is Treated in the Same Manner as Non-Recourse Factoring.

Invoice value	100	Other accounts receivable=OA
Discount	10	S–supplier, F–Factor, D–Debtor
Reserve	20	
Recourse	100	

1. Prior to Transaction

Assets			
From point of view	Against	Trade credit	
Supplier	D	100	
Debtor			

Liabilities			
From point of view	Against	Trade credit	
Debtor	S	100	

2. Reclassification via Transactions

	Factor		Supplier		Debtor	
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Trade credit			-100		-100	
Other accounts receivable			100		100	

3. Transaction

	Factor		Supplier		Debtor	
	Export	Import	Export	Import	Export	Import
Current account						
Fee	10			10		
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable (transferred amount of invoice)	100		-100			
Other accounts receivable (collateral)		20	20			
Cash	-70		70			

4. Positions After Transaction

Assets		
From point of view	Against	OA
Factor	D	100
Supplier	F	20
Debtor		
Liabilities		
From point of view	Against	OA
Factor	S	20
Debtor	F	100

5.1. Full Repayment

	Factor		Supplier		Debtor	
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Financial account						
Other accounts receivable (invoice)	-100					-100
Other accounts receivable (collateral)		-20	-20			
Cash	80		20		-100	

5.2. Full Non-Payment

	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable against Debtor	-100					-100
Other accounts receivable against Supplier	0	-20	-20	0		
Trade credit against Debtor			100			100
Cash	80		-80			

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (OA)	100	-100		0
Supplier	D (trade credit)	0	100		100
Supplier	F (collateral)	20	-20		0
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	S (trade credit)	0	100		100
Debtor	F (OA)	100	-100		0
Factor	S (OA)	20	-20		0

The bankruptcy of debtor

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Supplier	D (trade credit)	100		-100	0
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	S (trade credit)	100		-100	0

Option 3.2. Recourse Factoring is Treated as a Loan Provided to the Supplier.

Invoice value	100	Other accounts receivable=OA
Discount	10	Normal interest rate 5%
Reserve	20	S–supplier, F–Factor, D–Debtor
Recourse	50	

1. Transactions over the Period

	Factor		Supplier		Debtor	
Current account	Export	Import	Export	Import	Export	Import
FISIM	5.5			5.5		
Interest (against supplier)	4.5			4.5		
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Loans	80			-80		
Cash	-70		70			

Positions

Assets		
From point of view	Against	OA
Factor	S (Loan)	80
Supplier	D	100
Liabilities		
From point of view	Against	OA
Supplier	F (Loan)	80
Debtor	S	100

2. Full Repayment

	Factor		Supplier		Debtor	
Financial account	NAFA	NIL	NAFA	NIL	NAFA	NIL
Loan	-80		-100	-80		-100
Cash	80		20		-100	

3. Full Non-Payment

	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Loan	-80			-80		
Cash	80		-80			

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (Loan)	80	-80		0
Supplier	D(trade credit)	100			100
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	S (trade credit)	100			100
Supplier	F (OA)	80	-80		0

The bankruptcy of debtor

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Supplier	D(trade credit)	100		-100	0
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	S (trade credit)	100		-100	0

Option 3.3. The Invoice Should be Divided into Three Parts, and Different Treatments Should Be Applied to Them.

Invoice value	100	Other accounts receivable=OA
Discount	10	S–supplier, F–Factor, D–Debtor
Reserve	20	
Recourse (always larger than or equal to the reserve)	45	
Difference between Reserve and Recourse (cash advance)	25	

1. Prior to Transaction

Assets			
From point of view	Against	Trade credit	
Factor		0	
Supplier	D	100	
Debtor			

Liabilities			
From point of view	Against	Trade credit	
Debtor	S	100	

2. Reclassification via Transactions

	Factor		Supplier		Debtor	
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Trade credit			-100			-100
Other accounts receivable			100			100

3. Transaction

	Factor		Supplier		Debtor	
	Export	Import	Export	Import	Export	Import
Current account						
Fee	10			10		
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable plus fee	55		-55			
Other accounts receivable (against the supplier)	25			25		
Cash	-70		70			

4. Positions After Transaction

Assets		
From point of view	Against	OA
Factor	D	55
Supplier	D	45
Factor	S	25
Liabilities		
From point of view	Against	OA
Debtor	S	45
Debtor	F	55
Supplier	F	25

5.1. Full Repayment

	Factor		Supplier		Debtor	
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Financial account						
Other accounts receivable	-55		-45			-100
Other accounts receivable (against the supplier)	-25			-25		
Trade credit						
Cash	80		20		-100	

5.2. Full Non-Payment

	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable against debtor						
Other accounts receivable against supplier	-25			-25		
Trade credit						
Cash	25		-25			

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	S (OA)	25	-25		
Factor	D (OA)	55			55
Supplier	D (OA)	45			45
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F (OA)	55			55
Debtor	S (OA)	45			45
Supplier	F (OA)	25	-25		

The bankruptcy of debtor

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	D (OA)	55		-55	0
Supplier	D (OA)	45		-45	0
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F (OA)	55		-55	0
Debtor	S (OA)	45		-45	0

5.2. Non-Payment 20 Equal to Reserve, then Write-Off

	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable against debtor	-55		-25			-80
Other accounts receivable against supplier	-25			-25		
Trade credit						
Cash	80				-80	

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	S (OA)	25	-25		
Factor	D (OA)	55	-55		0
Supplier	D (OA)	45	-25		20
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	S (OA)	45	-25		20
Supplier	F (OA)	25	-25		0
Debtor	F (OA)	55	-55		0

The bankruptcy of debtor

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Supplier	D(OA)	20		-20	0
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	S (OA)	20		-20	0

5.3. Non-Payment 15, then Write-Off

	Factor		Supplier		Debtor	
Financial account						
	NAFA	NIL	NAFA	NIL	NAFA	NIL
Other accounts receivable against debtor	-55		-30			-85
Other accounts receivable against supplier	-25			-25		
Cash	80		5		-85	

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Factor	S (OA)	25	-25		
Factor	D (OA)	55	-55		0
Supplier	D (OA)	45	-30		15
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	F (OA)	55	-55		0
Supplier	F (OA)	25	-25		0
Debtor	S (OA)	45	-30		15

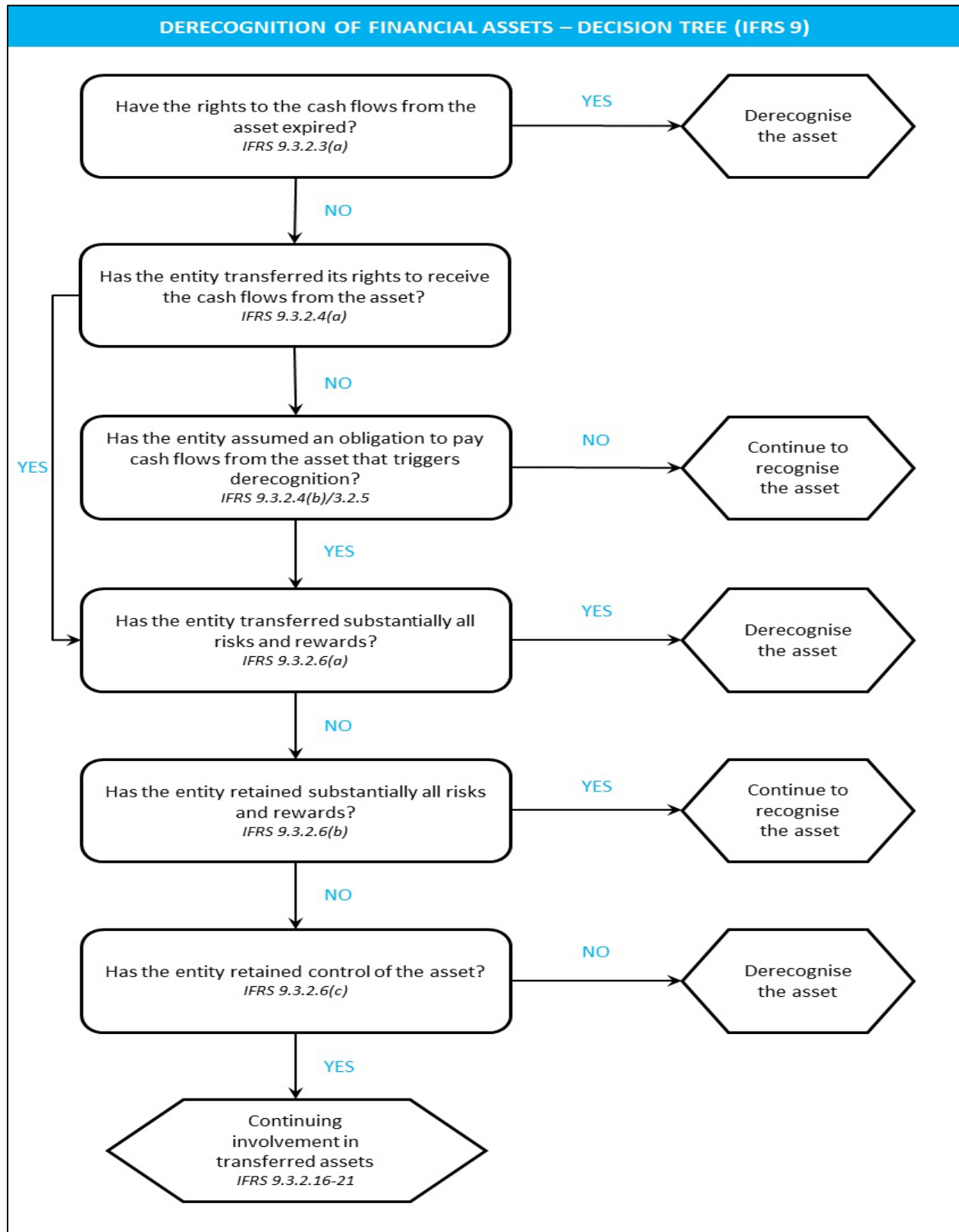
The bankruptcy of debtor

Assets					
From point of view	Against	P0	Transactions	Other changes	P1
Supplier	D(OA)	15		-15	0
Liabilities					
From point of view	Against	P0	Transactions	Other changes	P1
Debtor	S (OA)	15		-15	0

Annex V. Business Accounting

1. **Factoring transactions are recorded differently in factor's, supplier's, and debtor's accounting books.** Generally, debtor continues to show accounts payable, and there is no change due to factoring transactions.
2. **Non-recourse factoring is recorded as true sale in both factor's and supplier's balance sheet.** Supplier derecognizes the accounts receivable from the balance sheet and record sale loss immediately. Factor recognizes claim in balance sheet equal to cash paid and the discount receivable is accrued to instrument during the entire life (for simplification, we do not take into account additional payments for insurance, credit rating, and similar expenses carried by supplier and factor). Such approach is presumed for example by IFRS. Initial recognition of instrument purchased is equal to the amount paid to acquire the instrument. Effective interest rate is calculated based on future determined flows. IFRS require to calculate income based on amortized interest rate (IFRS 9 5.4.1 *"Interest revenue shall be calculated by using the effective interest method (see Appendix A and paragraphs B5.4.1–B5.4.7). This shall be calculated by applying the effective interest rate to the gross carrying amount of a financial asset..."*).
3. **This is a general approach for any instrument hold within certain business model mentioned in IFRS 9 4.1.2** *"A financial asset shall be measured at amortised cost if both of the following conditions are met: (a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding."*
4. **At the same time, in the supplier's accounts, IFRS prescribes recording a loss immediately.**
5. **IFRS does not mention treatment of factoring explicitly, but it does not mention other instruments (for example, loans) as well, focusing on general principles.** Giving that the factor does not intend to sell the claim to other unit, 4.1.2 recommendations should be applied to factoring transaction recordings.
6. **The recourse factoring accounting recordings differ from non-recourse factoring.** While the income of factor is still being calculated by effective rate, the nature of transaction itself needs further clarification. Main question is whether there is a true sale or not. If not, then a loan should be recognized from factor to supplier. At the same time, the claim on debtor still remains on supplier's balance sheet.
7. **IFRS describes the derecognition criteria in 3.2.3–3.2.6.** Decision tree can be described as follow (source: <https://ifrscommunity.com/knowledge-base/derecognition-of-financial-assets/#link-have-the-rights-to-the-cash-flows-from-the-asset-expired>).

Figure 2. IFRS 9 Decision Tree



8. In case of recourse factoring, as the asset is not expired, the right to collect cash flows are transferred to factor, nevertheless not all risks are transferred to factor, and the supplier does not retain control over the asset, the asset itself should be derecognized. At the same time, corresponding liability can be identified in balance sheet reflecting possible loss (not the recourse, but the estimated losses). For that reason, if a company has serious doubts about debtor creditability, it should not derecognize the assets.

9. Accounting practices can differ from country to country. For example, Korean accounting standards require to record recourse factoring as loan (<https://www.mdpi.com/2071-1050/12/24/10287/pdf>). Some conditions in contract may affect decision in favor of not derecognizing the accounts receivable on balance sheet of supplier (for example, explicit conditions, that the supplier has unconditional right to purchase back the asset).

10. US generally accepted accounting principles (GAAP), accounting standards codification (ASC) 860 paragraph 10-40-5 or Financial Accounting Standards Board (FASB), new standards (FAS) 140 paragraph 9 and 113 also focus on conditions of contracts rather than the type of contract. The recommendation of US GAAP is to derecognize assets, if the creditability of debtor is not questionable.

Annex VI. Discussion on Recourse Factoring vs Non-Recourse Factoring

1. **The most questionable issue during GN authoring team’s discussions was the treatment of recourse factoring.** While there was general agreement on the treatment of non-recourse factoring, two views were considered for the treatment of recourse factoring.

View One: Factoring with Recourse Generally Meets the True Sale Criteria

2. There are strong arguments to believe that recourse factoring generally meets the true sale criteria. First, the factor directly collects all cash flows from the debtor (even if he had to pay some amount back to the supplier). Second, though the supplier does not transfer all risks to the factor, the claim of the factor against him is in their view contingent (to the debtors’ default) and not actual, which reflects the fact that debtor defaults are rare. Under this reading, the factor has a claim against the debtor and only a guarantee from the supplier (an off-balance sheet item). Third, the primary obligated party on factored claims is the purchaser of goods/services, the “debtor”, who generally “accepts” the liability.

3. Moreover, rare defaults of the debtors imply that risks and rewards are generally mostly transferred to the factor, which is consistent with the fact that the guarantee provided by the supplier is not to be perceived as its present obligation. This is compounded by the fact that the factor’s exposure is de facto reduced by both the discounts negotiated, possibly further increased by the recourse liability/reserve. One can also consider the analogy with trade bills (e.g., bills of exchange, when accepted), whose transfer to new holders by way of endorsement is accounted as true sales²² despite the fact that the supplier and any subsequent endorser are actually obligated by the guarantee they have provided and thus subject to recourse.

4. Under this view, any cash reserve held by the factor as collateral in recourse factoring should then be recognized as a claim of the supplier against the factor. If the debtor fails to fulfill its obligation, the recourse event should be classified as in a call on a guarantee. **The collateral that the factor holds until final payment should be classified based on GN F.10 outcomes.** In the (rare) case the “recourse liability” exceeds the reserve and is actually called, the refund by the supplier is analyzed as a reacquisition/repurchase of claim against the debtor by the supplier (who will eventually write it off in case the debtor ultimately fails to settle its liability).

View Two: Factoring with Recourse Requires Recording a True Sale Only for the Amount of the Invoices Net of the “Recourse Liability”.

5. This view means that for the invoices under recourse, the supplier is retaining the economic ownership and with it, the risks of uncollectability vis-à-vis the debtor until the maturity of the factoring contract. Should the debtor default on all or part of these invoices, it is the supplier who has to eventually write-off the debt, as well as the debtor, and not the factor. In case of no default, the debtor is settling his accounts payable to the factor, who in turn pays out the residual cash amount (the reserve) to the supplier in exchange for the remaining invoices. In the practical case when the “recourse liability” differs from the “reserve amount the factor holds back” under the contract, the residual would be regarded as cash collateral as either an asset or a liability of the supplier vis-à-vis the factor. Furthermore, in the case

²² Notably *BPM6* paragraph 5.72 and *ESA 2010* paragraph 5.125

of a full recourse, when essentially all the risk remains with the supplier, the factor de facto provides a loan to the supplier for the whole amount.

6. Such treatment follows the logic in ECB manual on MFI statistics, where a direct recommendation exists to treat recourse factoring as a loan provided to supplier.

7. At the same time, flexibility may be required for the recording of recourse factoring in those jurisdictions where accounting standards and/or legal frameworks assimilate recourse factoring, for some reasons or on some conditions, to collateralized lending. Cross-country consistency would require a homogeneous treatment across parties. It should then be encouraged that all three parties classify a recourse factoring contract either as collateralized loans or as a sale depending on the law enforceable. A homogeneous treatment across parties and thus cross-country consistency can be achieved through the guidance provided by SNA and BPM for specific country cases.

Annex VII. Classification of the Discount and the Instrument

1. **While there is disagreement between drafting team members whether the current treatment of paragraph 3.82 of BPM6 recommends to record the discount as revaluation, all agreed that the discount should be reflected in macroeconomic accounts as output of financial intermediary.** Therefore, the missing recommendation (or exclusion from general rules) should be included in updated BPM/SNA framework.
2. **This interpretation can receive support from 2008 SNA paragraphs 6.160c and 6.170–6.174 (ESA 2010, paragraph 3.73) related to the implicit fees charged on securities transactions carried out by traders, whereby purchase and resale prices are to be partitioned so to recognize a service component.** Thus, the SNA/ESA explicitly prescribe reclassifying as income what should, in normal circumstances, be revaluations, for a specific category of transactors: security traders. A similar guidance should be applicable for factors. Notice that, here again, the rule that creates an exception to revaluation recording applies only to certain specialized units that are seen as financial intermediaries. This treatment is also analogous to the treatment of merchants in general in the SNA/BPM, where the purchase for resale at a higher price is considered output/income and not holding gain on inventories (unless a genuine price change occurred, in which case some differences in sale prices will enter revaluations).
3. **The discount itself conceptually consists of two components: a factoring fee and interest against funds provided in advance.** However, accounting standards generally require using the effective rate to record and accrue the income as interest in the income statement of the factor. The supplier may however show the amount of discount as fee or loss on sale in its own income statement. Another problem concerns the sector counterpart, the factor showing interest income thus necessarily accruing against the debtor in its own income statement. Finally, there is also a time of recording issue, as the supplier may show the full amount of discount as expense upon factoring, while the factor may accrue on the instrument during the length of its life.
4. **Thus, apart from any explicit fee/interest separately identified by the factor aside from the discount, the discount itself should be classified as fee/interest.** Although conceptually the discount does consist of both fees and interest, if it is not possible to identify the fee separately, one category should be chosen.
5. **As it was mentioned in section issues, answer to question, whether the factoring is financing of debtor or creditor has an important impact on decision, how to classify the instrument and the income.**
6. **The fact that the factor pays the supplier does not prevent seeing this as lending to the debtor, in the same manner as financial leasing is seen as financing the lessee despite the funds being paid out directly to the manufacturer.** In all these cases, the claim is against the party that has irrevocably committed to repay.
7. **In the case of factoring, the debtor “accepts” the claims, which can be seen as justifying the recording of a transaction between the factor and the debtor upon factoring because there is a genuine interaction between the two.** Following this line of reasoning, the change in position of the factor against the debtor would be recorded in the financial accounts (on a whom-to-whom basis) rather than by other change in volume. Which also limits the occurrence of these other changes in volumes (a

crucial quality checks of statistics for them). In addition, they point to the fact that this is consistent with the debtor/creditor principle followed for tradable instruments.

8. **A different point of view would consider that the mere fact that the supplier factored these invoices does not mean that the debtor engaged in a new loan agreement with the factor.** In particular, in international accounts, one would have to look at all the parties to the transactions rather than “looking through” transactions and applying the debtor-creditor approach.

9. **As the supplier does not ask for immediate payment of the invoice from the debtor, the invoice price also implicitly includes some financing element.** The 2008 SNA paragraph 3.144 takes the convention of not recognizing this financing element unless the trade credit is long term, based on the notion that it can be neglected. However, suppliers seek immediate payment through factoring. Thus, this financing element manifests itself upon factoring, with the appearance of a “discount”, part of which merely reflects the reduced present value of the trade credit at inception.

10. **An important question thus concerns the classification in national accounts of the discount entailed in factoring.** In general, any explicit fee or interest should be recorded and classified based on general principles of economic statistics. Similarly, any implicit fees or interest should also be recorded as such, even when they do not present themselves in that manner.

11. **Apart from any explicit fee/interest separately identified by the factor aside from the discount, the discount itself should be classified as fee/interest.** Interest may look appropriate for the factor based on IFRS general recommendations, but it is not classified as interest by the supplier. Although conceptually the discount does consist of both fees and interest, if it is not possible to identify the fee separately, one category should be chosen. To assist this choice, one may look at the relative share of fee versus interest likely to be included in the discount: to the extent that FISIM automatically reclassifies any interest earned above interbank rate as financial services, it is likely that the fee component is predominant within the discount.

12. **The analogy with discounting of trade bills is interesting but has limits.** If trade bills are recorded as debt securities, they should be recorded at a discount at issuance, implying interest recognized between the debtor and the trade bill holder (first the supplier, then the discount house)—for the fixed amounts set at inception given that the debtor principle is followed in the SNA/BPM for the recording of interest. The difference between the buying price and the nominal value can then be recorded as provision of service by analogy to traders of securities. This is then consistent with Option 2.3.

13. **There are strong counterarguments against treating the discount as interest.** The fact that the supplier does not have a corresponding liability against the factor would seemingly preclude recording an interest flow from the supplier to the factor and would instead require that the flow of interest is between the debtor and the factor. Another issue to consider is connected with FISIM: whether the

income recognized as interest earned on loans should be included in the FISIM calculations. In such a case, the distribution of FISIM should then be on the sector of the debtor rather than that of the supplier.²³

14. **One argument in favor of the fee treatment is that the seller will likely recognize the discount actually paid as sale-loss rather than interest in his own accounting.** Interest accruing on factoring claims is accrued using the effective rate, which includes all future flows related to the asset, without differentiating whether it is fee or interest.

15. **One difficulty is that the supplier recognizes the whole discount as expense upon factoring while the factor will accrue interest during the whole life of the instrument.** Recognition of the discount as income upon factoring, in one period at once, may be one way to solve the possible inconsistency between the accounting of the supplier and the factor. Such an approach will benefit cross-country consistency of stock data as well. Spreading the income over the life of the instrument is also difficult because the supplier does not have any instrument to balance, in the financial accounts, the entry that would then be required in the nonfinancial accounts. In either case, statistical techniques should be applied to correct the time of recording and to adjust the discount as fee or interest in factors' and suppliers' accounts, respectively. Some correction should be made to reclassify the income of the factor from interest to fee (if the option fee is preferred) or from fee to interest (if the interest is preferred).

16. **The current recommendation in BPM6 paragraph 5.72 explicitly requires to record the factoring claims as Other accounts payable/receivable after reclassification from trade credits.** From the point of view of the debtor, there is only a change in counterpart. Another argument to classify factoring as an other receivable is that the factor does not provide directly funds to debtor, while the claim itself is against the debtor. Also, the transferred claim is not a loan but a trade credit.

17. **Some, however, argued that factored claims cannot be classified in the 2008 SNA as other receivables (AF.89) because, according to them, it would be at odds with the definition of this category, which would only contain the timing difference between SNA transactions and their payments.** Although the latter is only the definition given to AF.89 by the *ESA 2010*, while the *2008 SNA* does not have a formal definition of this category, they nonetheless note that *2008 SNA* paragraph 11.127 second sentence seems to support this restriction: "*this category ... covers amounts related to taxes, dividends, purchases and sales of securities, rent, wages and salaries, and social contributions*".

18. **Furthermore, the arguments to classify the claim as other accounts receivable rather than loan on the ground that the factor does not provide any funds to the debtor is not necessarily convincing, as this also happens to financial leasing (where the lessee receives no cash) and more in general to any case of payments on loans contracted to the benefit of somebody else.**

²³ FISIM calculation requires comparing the interest flow before FISIM and a true flow of interest calculated using the claim value times a reference rate, the difference being considered as output. Because there is no claim between the factor and the supplier, then any interest recognized between the two sectors would be automatically retreated as production of service.