STATISTICS

INTER SECRETARIAT WORKING GROUP ON NATIONAL ACCOUNTS

F.14 Treatment of Factoring Transactions
(BOPCOM 22/06)/(SNA/M4.22/16)

Joint Thirty-Ninth Meeting of the IMF Committee on Balance of Payments Statistics and Twenty-First Meeting of the Advisory Expert Group on National Accounts

October 18–20, 2022

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Outline

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  - Loans vs Other Accounts Receivable (Other)
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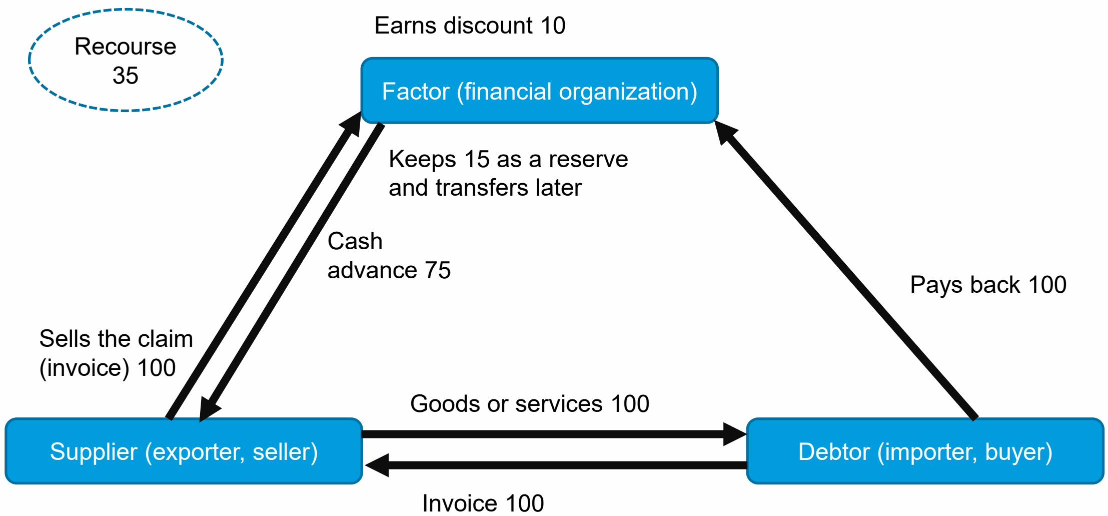
The Issues



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The Issues

- **Classification of the Discount Earned by Factor**
  - Interest/Fee vs Other volume changes
  - Who pays the interest supplier or debtor
- **Classification of the Claim on the Debtor**
  - Loan vs Other accounts receivable/payable (Other)
- **Treatment of Recourse Factoring**
  - To treat in a same manner as non-recourse or treat it differently
- **Other Related Issues**
  - How reclassification should be made in IIP (Transactions vs Other changes)
  - How to treat the reserve

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Current Treatment in Statistical Manuals

Manuals and Guides	The Discount	The Claim on the Debtor
SNA 2008	No treatment	No treatment
UN Handbook on Financial Production and *ESA 2010*	No treatment	Loan (alternatively trade credit)
BPM6	Valuation changes	Other accounts receivable (Other)
MFSMCG	No treatment	Loan
ECB Manual on FI Balance Sheet Statistics	Interest and fee	Loan
GFSM 2014	Fee	Loans (non-recourse only)

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Options for Consideration

Option 1 - Keep the status quo

- Treat the discount as a valuation change, the instrument as other accounts receivable (*BPM6*)
  - Different treatment in MFS and GFS, different treatment in practice, inclusion of specific transactions in other accounts receivable/payable

Option 2 - Treat the discount as a transaction

Options	Discount	Claim on the Debtor
Option 2.1	Fee	Other accounts receivable (Other)
Option 2.2	Interest	Other accounts receivable (Other)
Option 2.3	Interest and fee	Loan
Option 2.4 (recommended option)	Fee	Loan

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Treatment of the Discount

- **The factor and the supplier account differently in their business accounting for the discount earned/paid**
  - Factor accrues interest using effective rate
  - Supplier records losses on sales

Single treatment should be applied in macroeconomic statistics

- **The party that pays the income is supplier, however the claim is against the debtor**
  - Classification as an interest means interest without corresponding claim with analogy of security lending
  - Analogy with zero coupon securities is false
- **Direct analogy for fee is the check discounting with fixed service charge**
- **Option 2.3 (the debtor sought financing) is too sophisticated and challenging**
- **The authoring team was keen to recommend to record the discount as a fee (Options 2.1 and 2.4)**

Arguments For and Against the Treatment as Loans

Pros	Cons
Consistent with the current treatment in MFS and GFS statistics.	Not consistent with the current treatment in *BPM6*.
Consistent with current practice of recording the factoring transactions in most countries (on assets' side).	There is no direct provision of funds to debtor while the claim is against the debtor (assumption of indirect financing) and the debtor does not record a loan on its balance sheet.
Conceptually Other accounts receivable should be a residual category rather than include a full business model.	The treatment of the discount is not typical for loans. In case of interest there is an interest accrued against supplier while there is no correspondent stock. In case of fee there is a fee received against the loan.
Provides more analytical value if classified as a loan.	
Financial institutions in their business accounts record an asset using amortized value and accrue interest against it.	

Options for Recourse Factoring

Option 3.1 - Treat the factoring the same way as non-recourse factoring (recommended option)

- Treatments in Options 2.1–2.4 are applied. “Recourse” is a guarantee; “reserve” is cash collateral (GN F.10)

Option 3.2 - Treated as a loan provided to the supplier

- Treat the amounts provided by the factor as a loan granted to supplier. No changes in the positions related to delivery of goods and services between the supplier and the debtor

Option 3.3 - Recourse factoring is treated as a partial outright sale of the invoices corresponding to the part beyond the recourse liability.

- Divide the invoice into three parts
- The supplier keeps the ownership of the amounts covered by the “recourse”.
- Treat amounts in excess of the “recourse” as true sale (options 2.1–2.4 applied)
- Treat cash amounts provided by the factor up to “recourse” level (difference between the recourse and the reserve) as cash advances

Other Issues Related to Factoring Transactions

- **Reclassification via transaction or other volume changes**
  - The authoring team recommends to reclassify the instrument via transactions rather other volume changes
  - The rational is that the factoring is seen as a trilateral agreement
- **The authoring team also recommends to provide additional guidance for other types of supply chain finance in *BPM7* or Compilation guides**

Outcomes of Global Consultations (1)

- **Strong support to reject the status quo and provide clear and detailed guidance (89 percent)**
- **The majority (62 percent) agreed with the previously recommended option (Option 2.1) followed by Option 2.4 (30 percent)**
  - Strong opposition (about 1/3 of participant) against the initial recommended option and in favor of loans
  - Some comments indicated that compilers supported Option 2.1 as it was recommended by the authoring team.
- **Several arguments were provided against classification to Other accounts receivable**
  - Including a specific instrument under residual category
  - Contradicting current practices and other statistical domains

Outcomes of Global Consultations (2)

- For recourse factoring vast majority (74 percent) supported to treat the recourse factoring the same way
- 88 percent of compilers also supported reclassification of instrument through transactions
- Most of the respondents also agreed that the other types of supply chain financing should be covered in *BPM7* and compilation guide

Based on public consultation comments and additional arguments, authoring team discussed the options again and the majority supported to change the recommendation to Option 2.4.

Option 3.1 (i.e. treat recourse factoring as in Option 2.4 as well) is recommended for recourse factoring.

Questions for the Committee and AEG

1) *Do you agree with the GN proposal to reject Option 1 and instead consider 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?*