

THE EUF GLOSSARY ON
FACTORING AND
COMMERCIAL
FINANCE

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A Common Terminology for the Industry

The EUF Glossary on Factoring and Commercial Finance wishes to contribute to the establishment of a standard terminology concerning terms commonly used across Europe.

THE EUF GLOSSARY ON FACTORING AND COMMERCIAL FINANCE

TOWARD A STANDARD TERMINOLOGY ABOUT THE INDUSTRY
ACROSS EUROPE

The Factoring and Commercial Finance Industry offers a wide range of products and services, which are extensively used by European firms to make their business grow. The EUF Factoring and Commercial Finance Glossary wishes to contribute to the establishment of a standard terminology concerning commonly used terms, with the aim of improving communication and knowledge about the Industry across Europe.

The **EUF Glossary on Factoring and Commercial Finance**, drafted by the Economics and Statistics Committee of the EUF, provides the reader with a general taxonomy of the most common products and services offered but also the terms associated, in the EU factoring markets.

The reader will also note that although most of products and services can be classified in the following categories, they may slightly differ from country to country, due to the different economic and legal contexts which affect business needs and the demand for factoring and commercial finance services.

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Disclaimer

The EUF, its members and all individuals who have assisted in drafting this Glossary will have no responsibility regarding the correctness, completeness and legal enforcement of any definition contained in this paper and for any damage eventually caused by unfitting uses of its content.

This glossary is for reference only and does not contain or replace any legally binding definitions or concepts in either EU law or in the EU member states' national laws.

The Glossary on Factoring and Commercial Finance

Advance	Utilisation or drawing by the Assignor of funds made available by a Factor or a lender against an asset.
Advances on debtors outstanding	Funds advanced by a Factor or a Receivable financier (Prepayments) to an Assignor against debtor balances. Sometimes referred to as current account, utilisation or drawing, this is the actual currency advance at a certain moment in time. See also "Prepayment".
Asset Based Lending (ABL)	<p>An agreement between a business (Client) and a financial company in which the latter provides the Client with a structured facility combining secured loans and revolving credits. The Client may pledge/assign as collateral any combination of assets used in the conduct of its business (e.g. Receivables, stocks, plant & machinery, property, brands, etc.).</p> <p>ABL facilities are generally complex structures combining revolving credit lines based on current assets with amortising loans based on fixed assets. ABL is accordingly used for bigger clients, typically in a restructuring or MBO situation. Syndication between ABL companies for very large facilities is very common.</p>
Asset Based Lender	A Lender providing ABL facilities.
Assignee	The entity to which a Receivable is assigned.
Assignment	The transfer of Receivables from the Assignor to the Assignee.
Assignor	The entity disposing of an asset by an Assignment. See also "Client".
Availability	The amount of money that is available for drawing to the Assignor. This would be the value of all approved Receivables multiplied by the pre-agreed Prepayment percentage less any amounts already paid to the Assignor.
Bad debt	A debt that is unlikely to be paid because of the inability of the Debtor to pay the debt when it falls due.
Ban on Assignment	Clause in a contract between the Seller and the Buyer which prevents the supplier from assigning the related Receivables. It can render ineffective any Assignment of the Receivables arising out of the contract although in some legal environments the Factoring agreement may overrule the ban of Assignment.
Borrower	The party to whom a Lender makes a loan.
Buyer	See "Debtor".

Commercial Finance	<p>Commercial Finance is a generic term for a range of asset based finance services which include Factoring, Invoice Discounting, International Factoring, Reverse Factoring and Asset Based Lending facilities.</p> <p>There are many variations on each of these product sets (and the precise nomenclature varies from market to market) but all exist to provide working capital funding solutions to businesses.</p>
Commission charge	<p>Charge made by the Factor for services rendered including Receivable management and collection and/or credit protection services. The commission is usually calculated as a percentage of the total assigned turnover. Also known as “factoring fee”.</p>
Client (Seller)	<p>A supplier business which has a contractual relationship with a Factor or an Asset based lender. See also “Assignor” and “Seller”.</p>
Confidential Factoring	<p>See “Not notification Factoring”.</p>
Correspondent Factor	<p>A Factor that acts as an import Factor or export Factor under the Two Factor system.</p>
Credit Note	<p>Accounting documents which reduce the value of an outstanding invoice or debtor account. See also “Dilution”.</p>
Credit protection	<p>A service offered by a Factor or a Receivable purchaser where the Factor accepts the risk of non payment in the event of the inability of the debtor to repay the debt. See also “Non Recourse Factoring”.</p>
Debtor (Buyer)	<p>A business that has been supplied with goods or services by the Client and is obliged to make payment for them. Also referred to as the purchaser of goods or services supplied by a Client whose debts have been assigned/sold to a Factor.</p>
Debt collection	<p>A service offered by a Factor (or a Receivable purchaser) where the Factor collects the Receivable on behalf of the Assignor. It may also include all actions aimed at collecting due amounts from insolvent Debtors.</p>
Dilution	<p>Every situation that may reduce the value of an outstanding invoice except the default of the Debtor.</p>
Discount Charge	<p>Charge made by the Factor (or the Receivable purchaser) for advanced funds. Usually calculated by applying a discount rate (which in practice works like an interest rate) to the amounts advanced over the outstanding period.</p>

Domestic Factoring	Form of Factoring in which both Assignor and Debtor are based in the country of the Factor.
Export Factoring	Form of Factoring in which the Assignor, based in the country of the Factor, assigns/sells Receivables due by Debtors based in another country. See also “International Factoring”.
Factor	A financial entity providing Factoring facilities.
Factoring	An agreement between a business (Assignor) and a financial entity (Factor) in which the Assignor assigns/sells its Receivables to the Factor and the Factor provides the Assignor with a combination of one or more of the following services with regard to the Receivables assigned: Advance of a percentage of the amount of Receivables assigned, Receivables management, collection and Credit protection. Usually, the Factor administers the Assignor’s sales ledger and collects the Receivables in its own name. The Assignment can be disclosed to the Debtor.
Full Service Factoring	Form of Factoring in which the Factor provides the Assignor with all the following services with regard to the Receivables assigned: Advance of a percentage of the amount of Receivables assigned, Receivables management, collections and Credit protection. See also “Non recourse Factoring”.
Import Factoring	Form of Factoring in which an export Receivable is managed and collected by an Import Factor based in the same country as the Debtor. See also “International Factoring”.
Interfactor agreement	An agreement between Correspondent Factors whereby they mutually agree to act as Import and Export Factors in accordance with a code of practice.
International Factoring	Includes Import and Export Factoring. It is usually performed through the Two Factor System.
Invoice	A post contractual document issued by a Seller to a Debtor stating among other information the amount of the Receivable.
Invoice Discounter	A financial entity providing Invoice Discounting facilities.
Invoice Discounting	An agreement between a business (Assignor) and a financial entity (an invoice discounter) in which the Assignor assigns its Receivables and the discounter provides the Assignor with an Advance of a percentage of the amount of Receivables assigned, normally without Notification of the discounter's interest to the Debtor. The Assignor retains full control of its sales ledger function.

Lender	The party, usually a bank or a financial entity, who lends money to a Borrower.
Maturity date	The date on which a Receivable becomes due and payable.
Maturity Factoring	Form of Factoring in which the Assignor receives the payment of the Receivables on the due date or on a certain and fixed date, usually pre-agreed on the basis of the average payment period taken by the Debtor.
Not Notification Factoring	Form of Factoring in which the Assignment has not been notified to the debtor. Also referred to as "Confidential Factoring".
Non Recourse Factoring	Form of Factoring in which the Factor offers a Credit protection service and therefore the credit risk of Debtor failure remains with the Factor.
Notification of Assignment	A notice which can be issued by the Factor (or the invoice discounter) or by the Assignor to a Debtor and which informs the Debtor that its related debts payable have been assigned to the Factor.
International Organizations of Factoring	Network of businesses acting as Factors whose common aim is to facilitate international trade through Factoring and to act as trade organizations representing the industry.
Outstanding	A Receivable which has not yet been paid.
Prepayment	Payment in advance (prior to maturity) of all or part of the Purchase price of the Receivables assigned (the balance being paid when the debt is paid by the Buyer). See also "Advance".
Purchase price	The amount payable by a Factor or a Receivable purchaser to an Assignor for an assigned Receivable.
Reassignment	The transfer of an assigned Receivable from the original Assignee back to the original Assignor.
Receivable	A monetary obligation owed by one person to another in payment for the supply of goods or services.
Recourse Factoring	Form of Factoring in which the credit risk on the Debtor remains with the Assignor.
Reserve/Retention	The part of the Receivable retained by the Factor to cover specific risks such as Dilution.

Reverse Factoring	Form of Factoring in which the agreement is set up between the Factor and a (usually strong) Debtor and the Factor offers each supplier the possibility to assign/sell (usually without recourse) those Receivables approved for payment by the debtor (also known as Supplier Finance).
Sales Ledger	A report of outstanding Receivables, usually analyzed by Debtor balance and debt ageing.
Seller	See “Assignor” and “Client”.
Supplier Finance	See “Reverse Factoring”.
Turnover	Total value of all Receivables assigned/sold to the Factor by Assignors during the reporting period.
Two-Factor system	System whereby a Factor uses, by sub-Assignment, a Factor in another country (correspondent Factor) to collect the Receivables of an Assignor exporting to a customer in that country with or without Credit protection. The relationship between the Correspondent Factors is usually governed by an Interfactor agreement.

The Economics and Statistics Committee

The Economics and Statistics Committee (ESC) was established in March 2010 with the mission to inform the EUF Executive Committee with valid economical data, figures, statistics on Factoring and Commercial Finance at EU level and to prepare a “standard glossary” for the industry, with the final aim to contribute in raising the profile of the industry.

ESC Members (at 24 May 2012) :

Diego Tavecchia , Assifact representative – Chairman

Magda Ciechomska-Barczak, PZF representative

Gabriel Gómez Medina, AEF representative

Alexandros Kontopulos, HFA representative

Ansgar Kugelstadt, DFV representative

Kate Sharp, ABFA representative

Erik Timmermans, IFG representative

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Address:

c/o IFG secretariat

Avenue R. Vandendriessche 18 (box 15)

B-1150 Brussels

Belgium

E-mail: info@euf.eu.com

Telephone: +32 2 772 69 69

Fax: +32 2 772 64 19

<http://www.euf.eu.com>