

*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 following materials were used during update of this glossary, to support of global adoption of the commercial finance standard definitions:

\* The Global Supply Chain Finance Forum's Standard Definitions for Techniques of Supply Chain Finance – First edition, <http://icc.academy/standard-definitions-for-techniques-of-supply-chain-finance/>

\* FCI glossary, <http://fci.nl/>

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

<b>Accounts payable (A/P)</b>	A legally enforceable liability to a creditor recorded in the balance sheet, usually arising from purchases of goods and services and evidenced by a received invoice due to be paid within an agreed timeframe.
<b>Accounts receivable (A/R)</b>	A legally enforceable claim for payment held by a business entity against its customer for goods supplied or services rendered in execution of the customer's order, and recorded on the balance sheet. Such claim generally takes the form of invoice raised by a seller and delivered to the customer for payment within agreed timeframe. Also called "Receivables"
<b>Advance</b>	Utilisation or drawing by the Assignor of funds made available by a Factor or a lender against an asset.
<b>Advance payment</b>	A payment made in advance of a prescribed event such as due date or a contract commencement
<b>Advance ratio</b>	The maximum percentage of the value of an asset or assets by reference to which factor is prepared to make an available funds.
<b>Advances on debtors outstanding</b>	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".
<b>Agency factoring</b>	Sometimes called Bulk Factoring, a service which enables the client to retain the collection function, but which is disclosed to the debtor
<b>Anti-money laundering policy (AML)</b>	A policy put in place to help detect and report suspicious activity including the predicate offenses to money laundering and terrorist financing, such as securities fraud and market manipulation.
<b>Asset Based Lending (ABL)</b>	<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 &amp; 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>

<b>Asset Based Lender</b>	A Lender providing ABL facilities.
<b>Assignable</b>	Receivables which can be assigned without any legal constraints
<b>Assignee</b>	The entity to which a Receivable is assigned.
<b>Assignment</b>	The transfer of all rights to the Receivables from the Assignor to the Assignee.
<b>Assignment clause</b>	Written notification to the debtor/buyer that the A/R has been assigned and is payable to the designed factoring company. This usually appears on the invoice.
<b>Assignor</b>	The entity disposing of an asset by an Assignment. See also "Client".
<b>Availability</b>	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.
<b>Back-to-back factoring</b>	The provision of factoring services to a debtor in order to provide security for the approval of the debtor's indebtedness arising from the sales of another client (Salinger 1995)
<b>Bad debt</b>	A debt that is unlikely to be paid because of the inability of the Debtor to pay the debt when it falls due.
<b>Ban on Assignment</b>	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.
<b>Bank Payment Order (BPO)</b>	An inter-bank instrument to secure payments against the successful matching of trade data. The BPO offers the benefits of a letter of credit in an electronic environment, without the drawbacks of manual processing associated with traditional trade finance. Using SWIFTS Trade Service utility (TSU) or an equivalent transaction matching program, a BPO is an irrevocable undertaking given by one bank to another bank that payment will be made on a specified date after a specified event has taken place.
<b>Basel III/IV</b>	"Basel III/IV" is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. These measures aim to: <ul style="list-style-type: none"> <li>• improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source</li> <li>• improve risk management and governance</li> <li>• strengthen banks' transparency and disclosures.</li> </ul>

<b>Borrower</b>	The party to whom a Lender makes a loan.
<b>Bulk Factoring</b>	See "Agency factoring"
<b>Buyer</b>	See "Debtor".
<b>Client (Seller)</b>	A supplier business which has a contractual relationship with a Factor or an Asset based lender. See also "Assignor" and "Seller".
<b>Collection only</b>	An arrangement in which the factor is required to pay the purchase price on the collection date only (i.e. with no prepayments). Often goes with non-recourse facility
<b>Commercial Finance</b>	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. 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.
<b>Commission charge</b>	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".
<b>Concentration</b>	Usually expressed in % and says to which percentage one buyer represents the seller's total A/R
<b>Confidential Factoring</b>	See "Non notification Factoring".
<b>Confirming</b>	See "Reverse factoring"
<b>Correspondent Factor</b>	A Factor that acts as an import Factor or export Factor under the Two Factor system.
<b>Country risk</b>	The risk associated with investing in or creating exposure to a particular country.
<b>Credit Approval</b>	Is given when the factor accepts the credit risk assumed by taking a debt from a client without recourse to that client in the event of a payment default.
<b>Credit limit</b>	The maximum amount of outstanding debts which a factor is prepared to approve with regard to a specific debtor.

<b>Credit Note</b>	Accounting documents which reduce the value of an outstanding invoice or debtor account. See also “Dilution”.
<b>Credit protection</b>	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”.
<b>Credit risk</b>	The risk for the factor that a credit covered buyer is unable to pay for Receivables assigned to the Factor.
<b>Days Payable Outstanding (DPO)</b>	The average number of days a business takes to pay its suppliers
<b>Days Sale Outstanding (DSO)</b>	The average number of days a business takes to collect the proceeds of invoices due from its customers
<b>Debtor (Buyer)</b>	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.
<b>Debt collection</b>	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.
<b>Dilution</b>	Every situation that legally allows buyer to reduce the value of an outstanding invoice, except the default of the Debtor.
<b>Direct export factoring</b>	Export factoring without the use of a correspondent factor. Export factor covers the risk of counter party in another country (usually back up by insurance policy). Similar to domestic factoring, except buyers are abroad.
<b>Direct import factoring</b>	Similar to domestic factoring, except seller is abroad.
<b>Discount Charge</b>	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.
<b>Dispute notice</b>	Written notification to the client from the factor informing the client of a dispute

<b>Domestic Factoring</b>	Form of Factoring in which both Assignor and Debtor are based in the country of the Factor.
<b>Due date</b>	The date on which a payment is due to be made.
<b>Due diligence</b>	A business term for conducting an investigation into the 'facts'. Usually in respect of the client or prospective client. Part of the KYC process. In existing agreements usually applied to portfolio of debtor to check the outstanding invoices.
<b>EBRD</b>	European Bank for Reconstruction and Development. See: <a href="http://www.ebrd.com">www.ebrd.com</a>
<b>Electronic Invoice (e-invoice)</b>	An invoice electronically issued and received in any electronic format. Electronic invoice, exactly the same as an invoice in paper form, must contain the elements required by the VAT Act. In addition, the issuer has to ensure the authenticity of origin, integrity of content and legibility of the invoice
<b>European Committee for Standardization (CEN)</b>	CEN -French: Comité Européen de Normalisation, is a public standards organization whose mission is to foster the economy of the European Union (EU) in global trading, the welfare of European citizens and the environment by providing an efficient infrastructure to interested parties for the development, maintenance and distribution of coherent sets of standards and specifications.
<b>European Federation for Factoring and Commercial Finance Industry (EUF)</b>	The Representative Body for the Factoring and Commercial Finance Industry in the EU. It comprises national and international industry associations that are active in the EU. See: <a href="http://www.euf.eu.com">www.euf.eu.com</a>
<b>Export Factor</b>	The factor, usually located in the seller's (or exporter's) country, with whom the seller has a factoring agreement or contract.
<b>Export Factoring</b>	Form of Factoring in which the Assignor, usually based in the country of the Factor, assigns/sells Receivables due by Debtors based in another country. See also "International Factoring".
<b>Face Value</b>	The principal or redemption value of a financial instrument or claim
<b>Factor</b>	A financial entity providing Factoring facilities.
<b>Factorable Receivables</b>	Receivables that are free from lien and are assignable and collectible.

<b>Factoring</b>	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.
<b>Factors Chain International (FCI)</b>	A global association that facilitates two factor cross border international factoring in a structured environment under the General Rules for International Factoring
<b>Fintech</b>	Non-banking innovative company creating products or services offered so far by the financial industry.
<b>Forfaiting</b>	Form of Receivables Purchase, consisting of the without recourse purchase of future payment obligations represented by financial instruments or payment obligations, at a discount or at face value in return for a financing charge
<b>Full Service Factoring</b>	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".
<b>Funding limit</b>	The maximum value available to a client against his assigned Receivables
<b>Funds in use</b>	The total amount of funds advanced to the client prior to collection by the factor
<b>General Rules for International Factoring (GRIF)</b>	The rules which the members of FCI agree to adopt when transacting two factor cross border factoring
<b>Import Factor</b>	A correspondent factor, usually located in the country of the debtor, who is responsible for the collection and/or credit risk by sub-assignment of the debts
<b>Import Factoring</b>	Form of Factoring in which an export Receivable is managed and collected by an Import Factor usually based in the same country as the Debtor. See also "International Factoring".
<b>Indirect payment</b>	A payment made to the client by a debtor

<b>Insolvency</b>	Situation when entity can no longer meets its financial obligations with its creditors as debts become due.
<b>Interfactor agreement</b>	An agreement between Correspondent Factors whereby they mutually agree to act as Import and Export Factors in accordance with a code of practice.
<b>International Chamber of Commerce (ICC)</b>	ICC provides a forum for businesses and other organizations to examine and better comprehend the nature and significance of the major shifts taking place in the world economy. Also offer an influential and respected channel for supplying business leadership to help governments manage those shifts in a collaborative manner for the benefit of the world economy as a whole. See: <a href="http://www.iccwbo.org">www.iccwbo.org</a>
<b>International Commercial Terms (INCOTERMS)</b>	Internationally recognized standard trade terms used in sales contracts. They're used to make sure buyer and seller know: Who is responsible for the cost of transporting the goods, where the goods should be picked up from and transported to and who is responsible for each step of the transportation process.
<b>International Factoring</b>	Includes Import and Export Factoring. It is usually performed through the Two Factor System.
<b>International Factors Group (IFG)</b>	A global association for factoring providers. The activities of IFG have been integrated in FCI as from 1st of January 2016
<b>International Finance Corporation (IFC)</b>	A member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries. See <a href="http://www.ifc.org">www.ifc.org</a>
<b>International Organizations of Factoring</b>	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.
<b>Introductory letter</b>	A letter sent by the Seller to each of its debtors to advise them that the client has entered into factoring agreement.
<b>Invoice</b>	A post contractual document or electronic version of document issued by a Seller to a Debtor stating among other information the amount of the Receivable and the terms of payment.

<b>Invoice Discounter</b>	A financial entity providing Invoice Discounting facilities.
<b>Invoice Discounting</b>	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.
<b>Invoice Trading Platform</b>	An alternative to factoring, the on-line platform allows sellers to place individual invoices for auction. Investors or buyers can then bid for the invoice resulting in an advance payment to the seller. An example of “Fintech”
<b>Know your client/customer (KYC)</b>	A customer/client identification process which involves making certain efforts to verify the true identity of key individuals in a business, their standing and the character of the business or transaction they generate. Part of the AML/due diligence process
<b>Lender</b>	The party, usually a bank or a financial entity, who lends money to a Borrower.
<b>Liquidity coverage ratio (LCR)</b>	Ratio of current assets to current liabilities. An essential component of Basel III regulation. LCR shows if a bank has an adequate stock of unencumbered high-quality liquid assets (HQLA) that can be converted into cash easily and immediately in private markets to meet its liquidity needs for a 30 calendar day liquidity stress scenario.
<b>Margin</b>	The percentage margin added to the cost of funds or a base rate to establish the Interest Rate or Discount Charge
<b>Maturity date</b>	The date on which a Receivable becomes due and payable.
<b>Maturity Factoring</b>	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.
<b>Net stable fund ratio (NSFR)</b>	The NSFR is a significant component of the Basel III reforms. It requires banks to maintain a stable funding profile in relation to their on- and off-balance sheet activities, thus reducing the likelihood to lose a bank's liquidity position in a way that could increase the risk of its failure and potentially lead to broader systemic stress

<b>Non Notification Factoring</b>	Form of Factoring in which the Assignment has not been notified to the debtor. The Seller performs the sales administration and collects the Receivables as an agent for the Factor. Also referred to as "Confidential Factoring".
<b>Non Recourse Factoring</b>	Form of Factoring in which the Factor offers a Credit protection service and therefore the credit risk of Debtor failure remains with the Factor.
<b>Notification of Assignment</b>	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.
<b>Outstanding</b>	A Receivable which has not yet been paid.
<b>Payment terms</b>	The specific terms which determine when payment of an invoice is due. Usually stated on each invoice.
<b>Peer-to-peer lending</b>	The practice of lending money to unrelated individuals, or "peers", without going through a traditional financial intermediary such as a bank or other traditional financial institution. See also invoice trading platform. An example of "Fintech"
<b>Prepayment</b>	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".
<b>Pre-shipment credit cover</b>	Covers the cost of production for goods and services in a supply contract up to the maximum of the contract value
<b>Pre-shipment finance</b>	Pre-shipment finance is issued by a financial institution when the seller requires payment of the goods before shipment. The main objectives behind pre-shipment finance or pre export finance is to enable exporter to: procure raw materials, carry out the manufacturing procedure, warehousing of goods and raw material, shipping costs, other financial costs, pre-shipment.
<b>Purchase Order Management (POM)</b>	An FCI product developed to finance cross border pre-shipment.
<b>Purchase price</b>	The amount payable by a Factor or a Receivable purchaser to an Assignor for an assigned Receivable.

<b>Reassignment</b>	The transfer of an assigned Receivable from the original Assignee back to the original Assignor.
<b>Receivable</b>	A monetary obligation owed by one person to another in payment for the supply of goods or services.
<b>Recourse Factoring</b>	Form of Factoring in which the credit risk on the Debtor remains with the Assignor.
<b>Reserve/Retention</b>	The part of the Receivable retained by the Factor to cover specific risks such as Dilution.
<b>Retention of title</b>	Sometimes called a Romalpa clause in some jurisdictions. It is a provision in a contract for the sale of goods that the title to the goods remains vested in the seller until certain obligations (usually payment of the purchase price) are fulfilled by the buyer. Especially prevalent in Germany.
<b>Reverse Factoring</b>	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).
<b>Romalpa Clause</b>	see: "Retention of Title"
<b>Sales Ledger</b>	A report of outstanding Receivables, usually analysed by Debtor balance and debt ageing.
<b>Securitization of receivables</b>	A financing process by which the Receivables are structured into debt securities that can be sold to investors on the capital market for cash capital.
<b>Seller</b>	See "Assignor" and "Client".
<b>Society for Worldwide Interbank Financial Communication (SWIFT)</b>	A network that enables financial institutions worldwide to send and receive information about financial transactions in a secure, standardized and reliable environment.
<b>Subrogation</b>	The acquisition of the rights of a creditor by a third party who pays the original creditor.
<b>Supplier Finance</b>	See "Reverse Factoring".

<b>Supply Chain Finance</b>	Portfolio of financing and risk mitigating practices and techniques to optimise the management of the working capital and liquidity invested in supply chain processes and transactions. Support the trade and financial flows along end-to-end business supply and distribution chains, domestically and internationally.
<b>Trade Finance</b>	The financing of international trade (also domestic trade) can include: Letters of credit, guarantees, bills of exchange, factoring, forfaiting or export credit
<b>Turnover</b>	Total value of all Receivables assigned/sold to the Factor by Assignors during the reporting period.
<b>Two-Factor system</b>	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.
<b>Undisclosed factoring</b>	Another term for "Confidential Factoring"
<b>Verification</b>	A service offered by the factor/financier to establish the validity of a debt/receivable before its due payment date

## 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 January 2017) :

Magdalena Ciechomska-Barczak, PZF representative – Chairman

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Valeria FUMAROLA, ASSIFACT representative,

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