



Proposed Recommendations Document: 1.16 Treatment of Factoring Transactions

Summary Details

Links to Related Guidance/Discussion/Issue Notes and Latest Manuals:

[GN F.14 Treatment of Factoring Transactions](#)

[Draft 2025 SNA](#) and [Draft BPM7](#)¹

Global Consultation(s):

SNA/BPM: [June 2022](#)

Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):

Joint AEG/BOPCOM: [October 2022](#)

Discussions at GFSAC Meeting(s):

To be determined

Summary of Proposed Recommendations:

The proposed recommendation aims to align the updated GFSM with the draft 2025 SNA and BPM7 regarding the treatment of factoring with or without recourse. Under this guidance, factoring will be recorded as a loan between the factor and the debtor, with the change in instrument recorded as a transaction. This represents a change from the existing guidance in the *GFSM 2014*, which instructs that such changes should be recorded as a reclassification by way of an other change in the volume of assets. Additionally, the recommendation is to include in the updated GFSM the recognition of the recourse element of factoring with recourse recognized as a contingent liability for the supplier, therefore not recorded on the balance sheet unless the contingency is activated by the factor. In instances where the factor retains a reserve, this should be recorded as a deposit (if it is a liability of a deposit-taking corporation) or otherwise classified under other accounts receivable/payable.

Background and Issues

1. According to the SNA/BPM guidance note (F.14 Treatment of Factoring Transactions), factoring is a transaction in which a financial company (factor, which can be a bank, specialized factoring company, or other financial organization) buys trade accounts receivable from a supplier of goods and services (creditor) at a discount. Factoring is commonly viewed as a purchase or sale of invoices transferring the legal right of the claim on the debtor to the factor. The accounts receivable concerned are non-tradable trade-related receivables arising from the provision of goods, services, or work in progress.

¹ Links are to the “white cover” versions of the 2025 SNA and BPM7. While technically still considered draft only editorial amendments will be made between these versions and the final versions.

2. 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 creditor a higher percentage of the receivables (“discount”, i.e., fees and/or interest charges) than in recourse factoring. The creditor immediately receives the net amount of the “trade credit”/accounts receivable net of the discount. In a recourse contract, the factor will hold the creditor partly or fully responsible for any 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. Should 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”) plus any interest/fee due.

3. There is limited guidance on treatment of factoring transactions in the *2008 SNA*, *BPM6*, and the *GFSM 2014* and its applicability is subject to compilers’ interpretation. While *BPM6* (para. 5.72) states that trade credits sold to third party should be reclassified as other accounts receivable/payable by the supplier, and therefore, invoices on balance sheets of factors should be classified as other accounts receivable/payable, the *2008 SNA* is silent on factoring, except for listing it as part of the services that specialized financial corporations can provide.

4. *GFSM 2014* (para. 7.225, footnote 64) recommends reclassifying accounts payable claims on government from factoring activities as loans specifically if the factor does not have direct or indirect recourse on the supplier. It states that, when a supplier transfers a claim on a government unit completely and irrevocably to a financial institution (notably a unit engaged in factoring activity), the original liability of the government unit recorded as trade credit in other accounts payable should be reclassified (by way of an other change in the volume of assets) as a loan when the following two conditions are both met: (i) the government unit has no longer any payment obligation to its supplier, and (ii) the financial institution has no direct or indirect recourse on the supplier (transferor of the claim) if the government unit does not meet its payment obligations in due time. Also, if a trade credit is restructured in such a way that it meets the definition of a loan, it should be reclassified as a loan.

5. As part of the *SNA* and *BPM* update processes, factoring was discussed through guidance note F.14 (Treatment of factoring transactions), which resulted in the inclusion of guidance on factoring in the draft *2025 SNA* and *BPM7*. Specifically, like the *GFSM 2014*, draft *2025 SNA* (paras. 7.195 and 12.87) explains that the indirect financing provided by the factor should be treated as a loan. However, unlike the *GFSM 2014*, the draft *2025 SNA* goes on to state that the instrument reclassification should be recorded as a financial transaction. The rationale for this is that all three parties (supplier, factor and debtor) are involved and agreed to the transaction with the reclassification itself seen as a repayment of a trade credit and creation of a new liability by agreement. With regard to factoring with recourse, the draft *2025 SNA* explains that any reserves held by the factor should be recorded as a deposit (if it is a liability of a deposit-taking corporation), or otherwise as other accounts receivable/payable. It furthermore clarifies that the recourse itself is seen as a contingent liability and therefore not recorded on the balance sheet unless the contingency is activated by the factor. Finally, the draft *2025 SNA* explains that factoring income is treated as a fee paid by the supplier. There is therefore a need to clarify the updated *GFSM* with an aim of clarifying the treatment of factoring transactions with and without recourse.

Proposed Recommendations

6. It is recommended that the *GFSM 2014* be updated to align with the draft *2025 SNA* (paras. 7.195 and 12.87) on the treatment of factoring with and without recourse. *GFSM 2014* (para. 7.225 and footnote 64) should be updated to:

- Describe the nature of factoring and the two major types of factoring, specifying that the treatment applies to factoring intermediated by financial companies only;
- Record factoring with and without recourse as a loan between the factor and debtor, with the instrument reclassification recorded as a transaction and not an other volume change;
- Recognize for factoring with recourse, a contingent liability for the supplier—the contingency is therefore not recorded on the balance sheet unless activated by the factor—the activation of the recourse is recorded as a transaction;
- Record any reserves held by the factor as a deposit (if it is a liability of a deposit-taking corporation), or otherwise an other accounts receivable/payable; and
- Record factoring income as a fee paid by the supplier.

Rationale for Proposed Recommendations

7. The proposed recommendations aim to harmonize the updated *GFSM* with the *2025 SNA* and *BPM7*, a key objective of the *GFSM 2014* update process.

Proposed Text for GFSM Update

The updated *GFSM* should incorporate the guidance in the draft *2025 SNA* (paras. 7.195 and 12.87). However, a preference will be given to the wording used in 12.87 as the wording in 7.195 (inconsistently) implies that the factor can be a nonfinancial corporation.

7.195 Factoring is a transaction in which a financial company (factor, which can be a bank or other financial corporation, or a specialised unit offering factoring services) buys trade credits receivable from a supplier at a discount. The discount is equal to the difference between the nominal value of the accounts receivable and the actual payments by the factor to the supplier, and may consist of three elements: (i) fees; (ii) interest; and (iii) compensation for possible credit defaults. From a conceptual perspective, the output of the factor is represented by the first element only. In practice, however, details about the three elements may not be separately available. The difference between the nominal value of the accounts receivable and the actual payments by the factor may then be considered as a good approximation of output, under the condition that the factoring services are basically restricted to short term financing arrangements with low amounts of (implicit) interest, including credit default risks. However, in situations in which the factor receives a relatively high compensation for risk-free interest (for example, due to conditions of high inflation) and/or possible credit defaults, this convention could lead to unacceptable high amounts of output for the factor and should preferably not be applied. In such cases, compilers should seek to estimate a value for risk-free interest and/or credit default risk to be deducted from the value of output, or alternatively, compilers may consider estimating output by the sum of costs. Furthermore, when separating out an element of interest, no implicit financial services on loans and

deposits should be estimated. The main reason for this view is that factoring is quite different from the more traditional type of intermediating funds, which commonly refers to the intermediation between depositors and borrowers, thereby explicitly excluding claims like other accounts receivable/payable. This line of reasoning also applies, even though in the case of factoring the accounts receivable are to be reclassified to loans.

12.87 Factoring is a transaction in which a financial corporation (factor, which can be a bank, a specialized factoring company or other financial organization), buys trade accounts receivable from a supplier of goods and services at a discount. Two basic types of factoring are differentiated: recourse and nonrecourse factoring. In non-recourse factoring, 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 recourse factoring where all or part of the risk is kept by the supplier (recourse factoring). Factoring is commonly viewed as a purchase or sale of invoices transferring the legal right of the claim on the debtor to the factor. In factoring, the indirect financing by the factor to the debtor is treated as a loan. The instrument reclassification from trade credit to a loan should be recorded as a transaction in the financial account. The accounts receivable concerned are trade-related receivables arising from the provision of goods, services, or work-in-progress. The factor may also keep a reserve that should be paid back to the supplier once the debtor pays its liability in full. The recourse is seen as a guarantee treated as a contingent liability for the supplier, which should therefore not be recorded unless and until being activated by the factor. The reserve held by a factor is classified as a deposit (if it is a liability of a deposit-taking corporation), or other accounts receivable/payable, following the recording of cash margins for financial derivatives. The factoring income is treated as a fee paid by the supplier; see paragraph 7.195.