STATISTICS

Monetary and Financial Statistics Advisory Committee (MFSAC)

For Global Consultation

2028 Monetary and Financial Statistics Manual (MFSM)

Proposed Recommendation

2.11 Treatment of Factoring Transactions

Prepared by the MFSAC Secretariat

Summary

<table>
<tr><td colspan="2">Links to Related Guidance/Discussion/Issue Notes and Latest Manuals:

F.14 Treatment of Factoring Transactions

2025 System of National Accounts (SNA) and Integrated Balance of Payments and International Investment Position Manual, Seventh Edition (BPM7) [1]</td></tr>
<tr><td>Global Consultation(s):</td><td>SNA/BPM: June 2022</td></tr>
<tr><td>Discussions at the Advisory Expert Group on National Accounts (AEG) / Balance of Payments Committee (BOPCOM) Meeting(s):</td><td>Joint AEG/BOPCOM: October 2022</td></tr>
<tr><td>Discussions at MFSAC Meeting(s):</td><td>March 2026</td></tr>
<tr><td colspan="2">Summary of Proposed Recommendations:

The proposed recommendation for the 2028 Monetary and Financial Statistics Manual (2028 MFSM) is to elaborate the guidance on factoring with and without recourse, aligned with the 2025 SNA and BPM7. It is recommended to clarify that: (i) factoring should be recorded as a loan between the factor and the debtor, with the change in instrument recorded as a transaction; (ii) the recourse element of factoring with recourse should be recognized as a contingent liability for the supplier and recorded on the balance sheet only when the contingency is activated by the factor; (iii) factoring income should be recorded as a fee paid by the supplier; and (iv) any reserves held by the factor should be recorded as a deposit (if it is a liability of a deposit-taking corporation) or otherwise classify under other accounts receivable/payable.[2]</td></tr>
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Background and Issues

1. The guidance on the treatment of factoring transactions in previous versions of manuals on macroeconomic statistics (*2008 SNA, BPM6, GFSM and MFSMCG*) was limited, not aligned, and its applicability was subject to compilers' interpretation. The *2008 SNA* was silent on factoring, except for listing it as part of the services that specialized financial corporations can provide. The *BPM6* (para. 5.72) states that supplier should reclassify trade credits sold to third party to other accounts receivable/payable, and factor should classify invoices on balance sheets as other accounts receivable/payable. The *GFSM 2014* provides limited guidance (paragraph 7.225, footnote 64) on recording of non-recourse factoring transactions as loans. The 2016 *Monetary and Financial Statistics Manual and Compilation Guide (MFSMCG)* is also largely silent on factoring, yet it defines factoring companies as a type of specialized financial intermediary (para 3.162). However, the *MFSMCG* recommends that export bills discounted should be classified as a loan to the debtor (para 4.99b), which could be interpreted as *implying* a loan recording for factoring in general.

2. As part of the SNA and BPM update processes, factoring was discussed through guidance note GN F.14 *(Treatment of Factoring Transactions).* The GN defines factoring as a transaction in which a

[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] This is subject to further discussion.

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-tradeable trade-related receivables arising from the provision of goods, services, or work in progress.

3. The GN discusses two basic types of factoring: recourse and non-recourse factoring. In a recourse agreement, 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 collateral. After 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") of the already advanced amount of cash plus any interest/fee due. 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 recourse factoring. In this arrangement, the supplier immediately receives the full amount of the trade credit/accounts receivable net of the discount and does not have any additional obligation towards the factor.

4. Detailed guidance on factoring[3] has now been introduced in the *2025 SNA* and *BPM7*. Specifically, the *2025 SNA* explains that the indirect financing provided by the factor should be treated as a loan (paras. 7.195, 12.87). The *2025 SNA* further recommends that the instrument reclassification entailed in factoring (from trade credits to loans for the original borrower) should be recorded as a financial transaction. This is because 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, 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. 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. Lastly, the *2025 SNA* views, by convention, factoring income as a fee paid by the supplier and must be recorded as such. Although conceptually the discount does consist of both fees and interest, in practice, it may not be possible to identify these separately.

5. There is a need to define factoring activities in the 2028 *MFSM*, distinguishing between the factoring with and without recourse. The manual should provide detailed guidance on the treatment of factoring transactions with and without recourse, as well as the recording of recourse and reserves in the balance sheets of MFS reporters.

Proposed Recommendations

6. The recommended change to be included in the 2028 *MFSM* is to introduce an additional section in Chapter 4, section III.D *(Loans [F4])* to reflect the *2025 SNA* para 12.87, specifically to:

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[3] General statistical treatment for factoring should be also applied for reverse factoring. See paragraphs 16-17 of the *F.14 Treatment of Factoring Transactions.*

(i) describe the factoring activity and the two major types of factoring, including the distinction between recourse and non-recourse factoring and specifying that the treatment applies to factoring intermediated by financial companies only;

(ii) record factoring with and without recourse as a loan[4] between the factor and debtor, and provide the economic rationale and conceptual justification for treating factoring as a loan rather than other accounts receivable.

(iii) record reclassification of the instrument from trade credit to loan as a transaction, reflecting the agreement of all three parties;

(iv) for factoring with recourse, recognize a contingent liability for the supplier, and that the activation of the recourse is recorded as a transaction;

(v) for factoring with recourse, provide guidance on the recording of the "reserve" and for cases when the debtor defaults;

(vi) record any reserves held by the factor as a deposit (if it is a liability of a deposit-taking corporation), or otherwise other accounts receivable/payable;[5] and

(vii) in addition, introduce a new paragraph potentially after para 5.136 to define the discounted price at which the factor purchases the trade credits receivable from the supplier, and that factoring income is recorded as a fee paid by the supplier.

Rationale for Proposed Recommendations

7. The proposed recommendations aim to include in the *2028 MFSM* the guidance on the treatment of factoring, aligned with the *2025 SNA* and *BPM7*, which is currently missing.

Proposed Text for the *MFSM* Update

8. The text of the 2028 *MFSM* should incorporate the guidance from the *2025 SNA (*paras 7.195 and 12.87).

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[4] See the discussion in para 35 of the F.14 Treatment of Factoring Transactions.

[5] This is subject to further discussion.