Invoice Factoring
IFRS 9 update

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12 June 2018
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Introduction

The scope of this document addresses the following questions in relation to invoice factoring:

— How is Factoring seen from the point of view of a customer/client of a Factoring company?
— How is Factoring seen from the point of view of a Factoring company?
— What is the Accounting treatment?

The guidance contained herein is based on IFRS 9 Financial Instruments (2014). These rules are applicable to annual periods beginning on or after 1 January 2018.

The IFRS themselves do not mention “factoring”. Therefore, this document is based on the general rules covering the recognition and derecognition of financial assets found in IFRS 9.3.2 and IFRS 9 AG B3.2.1.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity.

For easier identification of the parties referred to in this document, the following terms are used:

— Factor: the financial institution offering the Factoring service.
— Seller: the client or customer of the Factor.
— Buyer: the Debtor or client’s customer.

This document comprises the general guidance for derecognition of financial assets and does not specifically address considerations when transfer is being made to a special purpose entity. The assumption is that the Factor in this case is a third party financial institution.

The examples presented in the Appendix to this document comprise simplified Factoring transactions for the purpose of demonstrating application of basic derecognition principles. The examples include a number of assumptions where indicated. All examples assume that the receivables are measured by the Seller and the Factor at amortized cost.
Decision to Derecognize the Receivable

From the point of view of the Seller, the important question is, if and at what point in time the receivable can be derecognized from the financial statements.

The following chart illustrates the evaluation of whether and to what extent a financial asset is derecognized. The analysis included in this document focuses on the decision steps in the red box:
1. Transfer of the financial asset

The Seller transfers the receivable if, and only if, it either:

a) transfers the contractual rights to receive the cash flows of the receivable, or

b) retains the contractual rights to receive the cash flows of the receivable, but assumes a contractual obligation to pay the cash flows to the Factor (pass-through arrangement).

If point (a) is met, the Seller needs to assess whether it has transferred substantially all risks and rewards (see below under part 2). If point (a) is not met, the Seller needs to assess whether a pass-through arrangement under point (b) is applicable.

To meet the condition of a pass-through arrangement under point (b), it is important that the Seller:

— has no obligation to pay amounts to the Factor unless it collects equivalent amounts from the original asset. Short-term advances by the Seller with the right of full recovery of the amount lent plus accrued interest at market rates do not violate this condition.

— is prohibited by the terms of the transfer contract from selling or pledging the original asset other than as a collateral to the Factoring company for the obligation to pay them cash flows.

— has an obligation to remit any cash flows it collects on behalf of the Factor without material delay. In addition, the Seller is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the Factor, and interest earned on such investments is passed to the Factor.

The Seller may continue to administer or provide servicing for assets that it has previously transferred to the Factor. For example, a Seller may transfer all rights to receivables but then continue to collect the cash flows of those receivables as a servicer in the capacity of an agent of the Factor.

If point (b) is not met, the Seller is not allowed to derecognize the receivable from the balance sheet.

2. Transfer of substantially all risks and rewards

When the Seller determines based on the conditions in part 1 that it has transferred the financial asset, it shall then evaluate whether it has also transferred substantially all risks and rewards. If the Seller transfers substantially all the risks and rewards of ownership of the receivable, the Seller shall derecognize the financial asset and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.

If the Seller retains substantially all the risks and rewards of ownership of the receivable, the Seller shall continue to recognize the original financial asset.

However, if the Seller has neither transferred nor retained substantially all of the risks and rewards of ownership of a transferred asset, then it determines whether it has retained control of that asset to assess whether derecognition is appropriate (step 3).
The risks and rewards analysis is performed by comparing the entity's exposure, before and after the transfer, to the variability in the present value of the future net cash flows from the financial asset. This evaluation can be done either separately for each type of risk that the financial asset is exposed to or for all of the risks arising from the financial asset.

In the analysis presented in this document, we assume that the main risk of ownership of short term receivables is the credit risk. In that case, Factoring without recourse transfers substantially all the risks to the Factor, whereas Factoring with full recourse retains substantially all risks at the Seller.

IFRS 9 specifically mentions the following as an example of when substantially all risks and rewards are not transferred:

B3.2.5(e) a sale of short-term receivables in which the entity guarantees to compensate the transferee for credit losses that are likely to occur.

However, if the Seller guarantees to reimburse the Factor for credit losses only in excess of a certain reasonably possible amount, then, depending on the fact pattern, the Seller could still conclude that it has transferred substantially all risks and rewards.

We note that in specific cases, assessment of transfer of substantially all risks and rewards can be more complex. We refer to section Other Considerations for examples of such scenarios.

3. Retention of Control of the Receivable

The retention of control is only important if the Seller neither transfers nor retains substantially all the risks and rewards of ownership of the receivable.

Whether the Seller has retained control of the transferred receivable depends on the Factor’s ability to sell the receivable. If the Factor has the practical ability to sell the receivable in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer, the Seller has not retained control. In all other cases, the Seller has retained control.

If the Seller has not retained control, it shall derecognize the receivable and recognize separately as assets or liabilities any rights and obligations created or retained in the transfer.

If the Seller has retained control, it shall continue to recognize the receivable to the extent of its continuing involvement in the financial asset.
A. Continue to Recognize Receivable in its Entirety

If the Seller has to continue to recognize the receivable in its entirety, the Seller has to recognize a financial liability for the price (consideration) received from the Factor. The asset and liability are recognized, measured, and extinguished in line with the guidance of IFRS 9, such as IFRS 9.4.2.1(b) applying to liabilities arising on transfer of financial assets not qualifying for derecognition or when the continuing involvement approach applied. This financial asset and liability may not be offset in line with criteria of IAS 32. Similarly, any income or expense from the financial liability must not be offset with expense or income from the receivable.

B. Derecognize Receivable in its Entirety

On derecognition of a financial asset in its entirety, the receivable against the Debtor is replaced with the receivable against the Factor. Any difference between the carrying amount and the sum of the price (consideration) received (including any new asset obtained less any new liability assumed) shall be recognized in profit or loss.

If the Seller retains any rights or obligations on the transferred receivable or if the transfer results in the Seller obtaining new financial assets or a servicing liability, the Seller has to recognize a new financial asset, a new financial liability, or a servicing liability, at fair value.

If the Seller transfers substantially all the risks and rewards of the assets to the Factor, but continues to perform the collection management as an agent for the Factor, a servicing asset or liability has to be recognized by the Seller in accordance with IFRS 9.3.2.10.

C. Recognize Receivable to the Extent of Continuing Involvement

The extent of the Seller’s continuing involvement in the transferred receivable is the extent to which it is exposed to changes in the value of the transferred receivable. For example, when the Seller’s continuing involvement takes the form of guaranteeing (part of) the credit risk of the transferred receivable, the extent of the Seller’s continuing involvement is the lower of the amount of the receivable and the maximum amount of the consideration received that the Seller could be required to repay (‘the guarantee amount’).

When the Seller’s continuing involvement takes the form of guaranteeing the foreign exchange risk, the extent of the Seller’s continuing involvement is the lower of the amount of the receivable and the maximum amount of the guarantee. If there is no limitation of the guaranteed foreign exchange loss, the full amount of the receivable has to be recognized as continuing involvement. In determining the extent of the entity’s continuing involvement in this case, the guarantee amount should be calculated by applying the spot exchange rate at the reporting date to the maximum amount of the consideration received that the entity could be required to repay in the foreign currency - i.e. without considering potential future changes in the foreign currency exchange rate. This is because the maximum amount of the consideration received that could be repaid is a fixed monetary amount denominated in the foreign currency that meets the definition of a monetary item in IAS 21. Monetary items are translated into their functional currency at the spot exchange rate at the reporting date. (IFRS 9.3.2.16(a), IAS 21.16).

Note: (1) If a debt financial asset classified at FVOCI is derecognized, then the cumulative gain or loss previously recognized in OCI in respect of the derecognized financial asset is reclassified from equity to profit or loss as a reclassification adjustment

(2) It should be noted that IFRS 9 contains an assumption that the fair value of such services can be measured reliably.
The Seller discloses information on:

— transferred financial assets that are not derecognized in their entirety; and
— transferred financial assets that are derecognized in their entirety in which the entity retains continuing involvement. (IFRS 7.42A) ¹

The following disclosures are required for each class of transferred assets that are not derecognized in their entirety:

— the nature of the transferred assets;
— the nature of the risks and rewards associated with those assets to which the entity is exposed; and
— the nature of the relationship between the transferred assets and the associated liabilities and the restrictions on the entity’s use of those assets. (IFRS 7.42D)

The following additional disclosures are required for each class of transferred assets that are not derecognized in their entirety in specific circumstances:

— when the counterparty to the associated liabilities has recourse only to the transferred assets:
  o the fair value of the transferred assets;
  o the fair value of the associated liabilities; and
  o the net position - i.e. the difference between the fair value of the transferred assets and the associated liabilities;
— when the entity continues to recognize all of the transferred assets, the carrying amounts of the transferred assets and associated liabilities; and

The following disclosures are required for each type of continuing involvement in transferred assets that are derecognized in their entirety:

— the carrying amounts and fair values of the assets and liabilities representing the entity’s continuing involvement;
— the entity’s maximum exposure to loss from its continuing involvement;
— a maturity analysis of the undiscounted cash flows that may be payable to the transferee in respect of those assets;
— the gain or loss on transfer and income and expense arising from the entity’s continuing involvement; and
— qualitative disclosures to explain and support the quantitative disclosures. (IFRS 7.42E)

Note: ¹ We note that for disclosure purposes, as guided by IFRS 7, “transfer” and “continuing involvement” are defined differently than for the purposes of asset derecognition analysis, as guided by IFRS 9.
Factoring from point of view of the Factor

Factoring Arrangements for the Factoring Company

To the extent that a transfer of a financial asset does not qualify for derecognition, the transferee (i.e. the Factor) does not recognise the transferred asset as its asset. If the Seller retains the contractual rights to receive the cash flows of the asset and has no obligation to remit any cash flow it collects on behalf of the Factor without material delay, then the Factor has a receivable from the Seller rather than the Buyer.

In the case that the Seller transfers the rights to receive the cash flows of the asset or in the case of meeting the criteria for a pass-through arrangement, there are the following possibilities for the Factor:

A. Factoring with recourse

In case of Factoring with recourse, the collection risk remains with the Seller. Therefore, the Factor has a receivable against the Seller, not against the Buyer as the Seller does not derecognize the receivable (in line with accounting treatment A in the previous section of this document). This receivable is recorded as soon as the Factor has a right to receive cash flows from the Seller and is measured initially at fair value. The receivable against the Seller is measured with regard to the default risk of the Seller.

The same accounting treatment would be followed, if the receivable is not transferred at all or the Seller has no obligation to pass the cash flow from the receivable directly to the Factor.

B. Factoring without recourse

In the case of Factoring without recourse, the Factor has to recognize the original receivable in the balance sheet, because substantially all risks and rewards have been assumed (in line with accounting treatment B in the previous section of this document). The Factor measures this receivable initially at fair value net of transaction costs.

If a part of the consideration is to be paid later on, the total consideration would be recognized as the fair value of the receivable, in addition, a liability payable to the Seller is recognized for the deferred payment.

C. Guarantee or Risk Sharing Agreement

If substantially all of the credit risk is neither transferred nor retained by the Seller, because the Seller guarantees a part of the receivable, the Factor still records a receivable against the Buyer (in line with accounting treatment C in the previous section of this document).

Note:

(3) Examples do not consider the possibility of the Factor having a loan commitment or a derivative contract, which may have to be recorded based on the details of the transaction.

(4) In addition, the other conditions of a pass-through arrangement have to be met; see page 6: Transfer of financial asset.
Classification of Financial Assets

Classification determines how financial assets and financial liabilities are accounted for in the financial statements and, in particular, how they are measured on an ongoing basis. IFRS 9 introduces an approach for the classification of financial assets driven by cash flow characteristics and the business model in which an asset is held.

Generally, financial assets and liabilities are measured at fair value on their initial recognition (in an arm’s length transaction, this would normally equal the transaction price).

For subsequent measurement, IFRS 9 contains three principal categories for financial assets, being amortized cost, fair value through OCI and fair value through P&L. The following diagram provides an overview of the classification of financial assets into the principal measurement categories.

Based on above overview, the following overall conclusions can be drawn:

For debt instruments very specific requirements are in place. First of all the business model needs to be determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The business model does not depend on management’s intentions for an individual instrument. Accordingly, this condition is not an instrument-by-instrument approach to classification and should be determined on a higher level of aggregation. However, a single entity may have more than one business model for managing its financial instruments.
Next to the business model assessment, the cash-flow characteristics of the debt instruments need to be assessed in order to determine whether or not the cash flows from the instrument are Solely Payments of Principal and Interest (SPPI). Contractual cash flows that are solely payments of principal and interest on the principal amount outstanding are consistent with a basic lending arrangement, where consideration for time value of money and credit risk are the most significant elements of interest. Usually cash flows in respect of trade Debtors would pass the SPPI test as cash flows are consistent with basic lending arrangements.

This so-called SPPI test needs to be passed on an individual instrument level in order to be able to account for the instrument at amortized cost (if business model is Held to Collect) or at Fair Value through OCI (if business model is Held to Collect and Sell). If the SPPI test is not passed i.e. cash flows are not in line with a basic lending arrangement, or the business model would neither be Held to Collect or Held to Collect and Sell, the instrument is accounted for as Fair value through P&L.

For the Seller

For the Seller, Factoring activity described in this document may have an impact on the business model assessment of the portfolio. It should be considered whether a portfolio where receivables are regularly Factored, with or without derecognition, would qualify as Held to Collect, Held to Collect & Sell, or other. This will determine whether the receivables remaining on the Seller’s balance sheet would be measured at amortized cost or fair value.

In case following the above analysis the Seller recognizes a financial liability to the Factor, classification guidance of IFRS 9.4.2.1(b) should be considered, which may result in financial liability measurement following that of the related financial asset.

For the Factor

The Factor should not present the acquired financial instruments derecognized by the Seller as Trade Receivables because trade receivables by nature originate from transactions in scope of IFRS 15 Revenue from Transactions with Customers. In this case, acquired financial instruments are originated in scope of IFRS 9.

If following the business model and SPPI test it is concluded that financial assets recognized by the Factor should be measured at amortized cost, the Factor should identify fees that are an integral part of the effective interest rate (IFRS 9.B5.4.1). Fees that are an integral part of the effective interest rate of a financial instrument are treated as an adjustment to the effective interest rate, unless the financial instrument is measured at fair value, with the change in fair value being recognized in profit or loss. In those cases, the fees are recognized as revenue or expense when the instrument is initially recognized.
The new impairment requirements of IFRS 9 are applicable to the following financial assets:

- All debt financial assets as defined in IFRS 9 that are measured at amortized cost or FVOCI, including e.g.:
  - Deposits with banks
  - Loans to clients
  - Loans to joint ventures (and intercompany loans in parent company FS)
  - Trade receivables

- Loan commitments and financial guarantee contracts issued that are not measured at FVTPL

- Assets from other standards, brought in scope of IFRS 9 impairments
  - Lease receivables for lessors in scope of IAS 17 and IFRS 16 (as of 2019)
  - Contract assets recognized in scope of IFRS 15

The provisions for doubtful debts will no longer be formed solely on the basis of losses incurred, but also on the basis of expected credit losses. The overview below gives a schematic view of the new IFRS 9 impairment model:

<table>
<thead>
<tr>
<th>Change in credit quality since initial recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stage 1</strong> Performing</td>
</tr>
<tr>
<td>12-month expected credit losses</td>
</tr>
<tr>
<td>Transfer</td>
</tr>
<tr>
<td>If credit risk on the financial asset has increased significantly since initial recognition.</td>
</tr>
<tr>
<td>Move back</td>
</tr>
<tr>
<td>If transfer conditions above are no longer met.</td>
</tr>
<tr>
<td>No significant deterioration in credit quality.</td>
</tr>
</tbody>
</table>

**Stage 2 Underperforming**

<table>
<thead>
<tr>
<th>Lifetime expected credit losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant deterioration in credit quality since initial recognition.</td>
</tr>
</tbody>
</table>

**Stage 3 Non-performing**

<table>
<thead>
<tr>
<th>Lifetime expected credit losses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit impaired financial assets (includes purchased and originated).</td>
</tr>
</tbody>
</table>

The above exhibit shows the general approach, however a simplified approach must be applied for trade receivables without a significant financing component (IFRS 15) and may be applied for trade receivables with a significant financing component and lease receivables. The simplified approach states that the loss allowance is always equal to the lifetime expected credit losses.

As stated above, trade receivables are financial assets originated by transactions in scope of IFRS 15 Revenue from Contracts with Customers. Therefore, in case of acquisition of receivables from the Seller, the Factor would not be eligible for application of the simplified approach. However, if the collection term of receivables is below 12 months, in practice, there would generally not be a measurement difference between the 12-month and lifetime ECL (although there will be differences in disclosures).
Revenue Recognition

Revenues in case of Factoring may consist of interest income and income for services. These have to be split and accounted for as follows:

— Interest income is recognized using the effective interest method (IFRS 9.5.4.1, IFRS 9.B5.4.1), for assets measured at amortized cost and debt securities measured at FVOCI

— Fees which are not part of the effective interest (such as servicing fees) shall be recognized by reference to the five-step approach under IFRS 15.

Other considerations

As mentioned earlier, this document focuses on a basic analysis of short-term receivables Factoring where credit risk is the main risk associated with the instrument. However, additional risks may be applicable to the Factored instrument which could complicate the derecognition analysis:

— Interest-rate risk
— Prepayment risk
— Late payment risk
— Currency risk

Presence of these risks may mean that terms of recourse/non-recourse in respect of credit risk would not be the decisive Factor in the transfer of substantially all risks and rewards.

With short-term receivables Factoring, it is likely that late payment risk should also be considered in addition to default risk when evaluating substantial transfer of risks and rewards to the Factor. Late payment risk is the risk that payments received from the underlying financial assets are made later than expected.

Dispute risk

‘Dispute risk’ (also known as ‘warranty’ or ‘dilution risk’) is the risk of a dispute over a financial asset - e.g. a receivable - because of a claim from the Buyer that the quality of goods delivered or services performed varied from what was agreed contractually. The risk is that the Buyer may not be legally obliged to pay the stated amount of the receivable. Consequently, the Seller may have sold a financial asset that does not legally exist or that does not exist to the extent of its stated amount.

Typically, the Factor will not accept liability for any such dispute risk - i.e. the Seller remains liable for any deductions arising from disputes and has to reimburse the Factor for losses incurred, or the Factor has a right to put the disputed financial asset(s) back to the Seller. Because there is no (legally existing) financial asset, there is no risk that could be transferred unless the Factor accepts this risk without the possibility of recourse; in practice, the chance of this is remote.

Thus, dispute risk should not be included in the risks and rewards analysis, because it relates to the existence of a financial asset rather than to the risks and rewards inherent in an existing financial asset.

In case the receivables are credit insured by the Seller prior to factoring, the Seller has a reimbursement right from another entity - the insurance company - and thereby economically hedges its risk exposure arising from the transferred financial assets. This fact is irrelevant in an analysis of risks and rewards. Only the risks and rewards between the Seller and the Factor are included in the analysis. Therefore, the analysis of risks and rewards does not consider whether and how the Seller has entered into other contracts with third parties that reimburse the Seller for losses incurred in connection with the transferred assets.

In some cases, within the scope of a factoring agreement, a credit enhancement is provided by a third party. If the Seller is the beneficiary of the credit enhancement, but agrees to compensate the Factor for credit losses, then this is an indication that the transferor has retained the credit risk. In this case, it should be assumed that the Seller continues to bear the credit risk.

We suggest to contact your accounting advisor when analyzing more complex Factoring agreements.
Example 1: Factoring without recourse

Fact pattern

The Seller assigns 100 trade receivables to the Factor. Contractual rights to receive cash flows have been transferred to the Factor. The Seller guarantees existence of the receivables. The Factor makes an advance of 96 to the Seller for the receivables. The Seller will continue to administer the collection of the receivables and will repay the Factor from the cash receipts. There is no obligation for the Seller to repay the Factor for any amounts not collected. The Seller will continue to service the receivables.

Book value A/R: 100
Fair value A/R: 99
Factoring Fee: 3
Servicing fee: 2

Note, this is a simplified hypothetical scenario. In practice, Factoring agreement may be worded in such a way that various fees or considerations for time value of money may not be explicitly stated. However the transaction should be analyzed for these elements in order to properly apply IFRS 9 and IFRS 15.

Analysis

Transfer of financial asset

Transfer criteria of IFRS 9.3.2.4 are met because the Seller transfers the right to receive cash flows from the assets to the Factor. The fact that the Seller guarantees existence of the A/R does not harm the analysis as this relates to dispute risk, which is a business risk of the transaction rather than a financial risk. Even if the Seller continues to collect the cash flows, conditions for a transfer are still met as the Seller continues to act only as an agent.

Transfer of substantially all risks and rewards

The Seller has transferred all of the credit risk to the Factor, assuming only credit risk is applicable to the asset this represents a transfer of substantially all risks and rewards.

Journal entries

On date of transfer¹:

<table>
<thead>
<tr>
<th>Seller</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>96</td>
</tr>
<tr>
<td>Loss on Factoring</td>
<td>1</td>
</tr>
<tr>
<td>Prepaid Factoring fee</td>
<td>3</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>100</td>
</tr>
</tbody>
</table>

To record purchase of receivables

On collection of receivables one month later (assuming 95 is collected):

<table>
<thead>
<tr>
<th>Seller</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>95</td>
</tr>
<tr>
<td>To/from Factor</td>
<td>93</td>
</tr>
<tr>
<td>Servicing revenue</td>
<td>2</td>
</tr>
<tr>
<td>Prepaid factoring fee</td>
<td>3</td>
</tr>
<tr>
<td>Factoring expense</td>
<td>3</td>
</tr>
<tr>
<td>To/from Factor</td>
<td>93</td>
</tr>
<tr>
<td>Cash</td>
<td>93</td>
</tr>
</tbody>
</table>

To record collection of receivables net of credit loss, and payment of service fee.

Note: (1) Note that in this case, the servicing fee is considered to be adequate, so no servicing asset or liability needs to be recorded.
² In practice, credit loss should be recorded by the Factor sooner under the IFRS 9 expected credit loss model. The Factor should assess impairment losses on financial assets as at each reporting date.
Example 2: Factoring with recourse

Fact pattern

The Seller assigns 100 trade receivables to the Factor. Contractual rights to receive cash flows have been transferred to the Factor. The Seller guarantees existence and the credit risk of the receivables up to the full amount. The Factor will advance 60 to the Seller with additional consideration to be paid later upon collection of the receivables. The Factor will charge interest of 10% until repayment of the advance. The Seller will continue to service the receivables.

Book value of A/R: 100
Fair value A/R: 99
Upfront payment: 60
Interest: 10%

No additional factoring fees or serving fees are payable/receivable in this example.

Analysis

Transfer of financial asset

Transfer criteria of IFRS 9.3.2.4 are met because the Seller transfers the right to receive cash flows from the assets to the Factor. The fact that the Seller guarantees existence of the A/R does not harm the analysis as this relates to dispute risk, which is a business risk of the transaction rather than a financial risk. Even if the Seller continues to collect the cash flows and has not notified the Buyers of the transfer, conditions for a transfer are still met as the Seller continues to act only as an agent.

Transfer of substantially all risks and rewards

By guaranteeing the credit risk, the Seller has retained substantially all of the credit risk and should thus continue to recognize the receivables. In addition, because the Factor charges interest on the advance, the Seller also retain late payment risk of the receivables.

Journal entries

On date of transfer:

<table>
<thead>
<tr>
<th>Seller</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash 60</td>
<td>Receivable from Seller 60</td>
</tr>
<tr>
<td>Loan from Factor 60</td>
<td>Cash 60</td>
</tr>
<tr>
<td>To record cash advance from Factor</td>
<td>To record cash advance to Seller</td>
</tr>
</tbody>
</table>

One month later:

<table>
<thead>
<tr>
<th>Seller</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense(^1) 0.5</td>
<td>Receivable from Seller 0.5</td>
</tr>
<tr>
<td>Loan from Factor 0.5</td>
<td>Interest revenue 0.5</td>
</tr>
<tr>
<td>To accrue interest expense on advance.</td>
<td>To accrue interest revenue on advance.</td>
</tr>
</tbody>
</table>

On collection of receivables (assuming 95 is collected):

<table>
<thead>
<tr>
<th>Seller</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash 95</td>
<td>Receivable from Seller 95</td>
</tr>
<tr>
<td>Credit loss(^2) 5</td>
<td>Cash 5</td>
</tr>
<tr>
<td>Accounts receivable 100</td>
<td>Receivable from Seller 100</td>
</tr>
<tr>
<td>Loan from Factor 60.5</td>
<td>Cash 60.5</td>
</tr>
<tr>
<td>To record collection of receivables net of credit loss, and settlement of loan from Factor</td>
<td>To record settlement of loan to Seller</td>
</tr>
</tbody>
</table>

Note: (1) 60 x 10% / 12
(2) In practice, credit loss should be recorded by the Seller sooner under the IFRS 9 expected credit loss model. The Seller should assess impairment losses on financial assets as at each reporting date.
(3) With respect to 39 deferred consideration (99 FV – 60 advance) and the transfer of associated receivables to Factor, they are settled on net basis.