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VALUE, COMPETITIVENESS AND RISK IN FACTORING: THE ROLE OF REGULATION

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Research for

ASSIFACT
Associazione Italiana per il Factoring

Executive Summary

Factoring today represents one of the essential pillars of the Italian productive system: a financial infrastructure that provides liquidity, stability, and operational continuity to tens of thousands of firms, directly supporting the competitiveness of industrial supply chains and of the Italian economy. The uniqueness of factoring lies in its nature as a structured and complex instrument for the financing and management of working capital, which constitutes the main form of short-term financing for firms, particularly SMEs, and acts both as a substitute and as a complement to bank credit.

The research "**Value, Competitiveness and Risk of Factoring. The Role of Regulation**" explores this contribution in depth, measuring its effects on companies, industries, and the broader economic system, including with reference to its treatment under prudential regulation, which may, in perspective, accompany the development of the industry.

In the first part of the research, it emerges that factoring is a structural lever supporting liquidity and firm growth, with particularly significant effects for SMEs, which represent the largest share of the customer base. Thanks to its unique combination of working-capital financing, professional management of trade receivables, and mitigation of insolvency risk, factoring accelerates production cycles, reduces information asymmetries, and strengthens corporate resilience, often proving more accessible and more flexible than traditional bank credit. From its origins in the U.S. textile industry in the nineteenth century to its central role in the European economy, factoring has established itself as a constantly and rapidly expanding liquidity engine, capable of growing even during periods of crisis. In 2024, the global factoring market reached €3.9 trillion in turnover, of which 67% was generated in Europe. Italy confirms its position among the leading countries, with €298.5 billion, approximately 13% of GDP, ranking steadily fourth in Europe.

The Italian factoring industry is characterised by a high degree of financial biodiversity: more than half of the market is served by specialised financial intermediaries, often belonging to banking groups, equipped with dedicated expertise, highly specialised processes, and flexible operating models. This configuration strengthens the resilience of the financial system and allows the industry to serve a broad and diversified base of firms, including very small companies or those with risk profiles not fully compatible with bank lending.

On the demand side, 32,431 firms were active in factoring in 2024, with a strong presence of SMEs (42% of assignors have revenues below €10 million). Satisfaction levels are high, driven by fast disbursement, secure collection, and high-quality credit management.

The research highlights that factoring has established itself not only as an alternative but as an advanced complement to bank lending. The ability to combine immediate liquidity, receivable-management services, professional assessment of debtors, and protection from insolvency risk makes factoring a particularly effective solution for supporting business continuity during periods of volatility, accelerating production and commercial processes, sustaining growth, internationalisation and restructuring strategies, and improving the overall quality of firms' trade-receivable portfolios.

The analysis shows that the benefits generated by factoring extend beyond individual firms, contributing in a measurable way to the financial stability and competitiveness of the entire productive system: more than €200 billion in liquidity generated each year, directly supporting the working capital of supplier companies; a tangible macroeconomic contribution estimated at between 3% and 4% of GDP, confirming the structural nature of factoring within the Italian economic system; a proven countercyclical role, thanks to its ability to maintain stable levels of activity and credit quality compared with the banking sector during crises; and a positive impact on the competitiveness of supply chains by reducing collection times, improving receivable-management processes, and alleviating financial pressures across production networks.

The second part of the research reveals that the European regulatory framework applicable to factoring reflects structural weaknesses of the EU rulemaking process: increasing reliance on soft law, normative stratification that heightens uncertainty, and the often non-proportionate application of prudential requirements. The case of the definition of default is the most striking example: rules conceived for bank credit are automatically applied to factoring, generating distorted outcomes, such as the classification as default of mere technical or commercial delays, especially in exposures to public administrations. This dynamic reveals a broader issue: the insufficient recognition by the European legislator of the operational specificities of non-bank intermediaries (such as those under Article 106 of the Italian Consolidated Banking Act), which play an essential role in financing the real economy. The result is a misalignment between actual risk and regulatory burden, with repercussions on the competitiveness of the sector and, more generally, on the coherence and legitimacy of the European regulatory process.

The third part of the research examines the positioning of factoring within the Italian financial system, showing that the industry exhibits a structurally more solid profile than the banking sector: more stable profitability over time, greater operational efficiency, and lower and less volatile risk levels. Comparative analysis of the main performance indicators shows that factoring records a higher average ROE with limited variability, remaining consistently positive and within a narrow range, whereas the banking system alternates phases of strong contraction with periods of more pronounced recovery, with much wider fluctuations. This evidence is also reflected in the cost structure: the sector's cost-income ratio is structurally lower and more stable, demonstrating greater operational efficiency in converting revenues into margins. Credit quality confirms this positioning: analysis of the NPE ratio, both gross and net, reveals significantly lower and less volatile levels than those observed in the banking sector, indicating lower exposure to credit-risk cyclicality and stronger capabilities in managing deteriorated positions.

However, the empirical investigation highlights a significant regulatory issue linked to the automatic application of the 180-day threshold for classifying exposures to Public Administrations. The research shows that this mechanism produces a major distortion in risk representation: a substantial portion of positions is classified as deteriorated despite no actual deterioration in credit quality, reflecting primarily procedural delays in payment processes rather than real insolvency situations.

This effect is particularly evident in portfolios with high concentration in public-sector debtors, where an exceptional increase in past-due deteriorated positions is observed in the last year analysed, while the levels of bad loans and unlikely-to-pay exposures remain contained and stable. Such misalignment between regulatory risk and economic risk significantly alters the deterioration indicators of the sector, penalising operators most exposed to the public sector and artificially amplifying the perceived risk associated with these portfolios.

The research demonstrates that this phenomenon is not neutral: the misrepresentation of risk under the regulatory framework leads to an increase in risk-weighted assets and unjustified capital absorption relative to actual expected losses, limiting the sector’s ability to fully perform its role in supporting the real economy. The counterfactual estimation shows a loss of credit capacity of approximately €2 billion, reducing the ability to finance firms supplying the public sector, with negative effects on supply-chain liquidity and on the overall competitiveness of the productive system. This reduction translates into a smaller volume of resources available to support the working capital of the companies involved, with potential consequences for operational continuity and the capacity to sustain production and commercial volumes.

The contribution attached to the research examines the issue of receivable assignment in Italian municipalities, focusing on the factors that contribute to delays in payments by local authorities, and proposes the use of factoring as a tool to support financial recovery and liquidity. The municipal sector is structurally solid: only a small share, around 6.1% as of 31 December 2024, is in a situation of severe financial distress. Credit risk remains very low, even for distressed entities, since a municipality cannot go bankrupt as it provides constitutionally protected public services. Payment delays stem from structural factors inherent in the public nature of these entities, which lengthen the expenditure cycle. Among the main causes are the multifactorial nature of administrative processes, the pronounced fragmentation of local administrations (69.9% of municipalities have fewer than 5,000 inhabitants), and the shortage of qualified personnel, worsened by the ageing of the workforce. The most critical phase of the expenditure process is liquidation, which requires complex documentary and technical checks and is particularly vulnerable to slowdowns caused by discrepancies, uncertainties regarding the amount due, or external verifications.

Financial crises, in the form of bankruptcy-like procedures or multi-year recovery plans, are structurally concentrated in just three regions (Campania, Calabria, and Sicily) which together account for 63.6% of all procedures initiated as of 31 December 2024. Title VIII of the Consolidated Law on Local Authorities (TUEL), which governs these pathological situations, proves inadequate and unsystematic: the mechanism of “deficit parameters,” conceived as a preventive tool, is activated too late, while the two corrective procedures (“insolvency” and “rebalancing”) show significant limits and often lead to lengthy administrative processes that favour the degeneration of recovery plans into formal bankruptcy.

Recent case law, particularly that of the European Court of Human Rights, has strengthened creditor protection by affirming the right to full compensation (principal, interest, and revaluation) even in cases of municipal insolvency, and by condemning excessive delays in the execution of judicial decisions. The judgments of the ECHR, such as the one concerning the Municipality of Catania in January 2025, expose public finances to significant risks of financial damage and reduce the effectiveness of settlement procedures initiated by local authorities. In this context, factoring represents a crucial tool for injecting liquidity into the system and reducing the ageing of outstanding debt: invoices more than twelve months overdue represent roughly 78% of total arrears. The use of factoring allows earlier liquidity for suppliers and supports the achievement of the National Recovery and Resilience Plan (PNRR) targets relating to payment timeliness. However, the full development of factoring is hindered by the rigidity of the regulatory framework and by a classification of default for Public-Administration exposures that overestimates loss risk: deteriorated exposures to the public sector weigh up to ten times more than those to private companies.

In conclusion, a radical reform of Title VIII of the TUEL is needed to overcome the current slowness and duplication of recovery procedures. The introduction of a unified procedure, inspired by the logic of the recently introduced “Pacts with the Government,” is proposed. The reform should aim for a more balanced alignment between the interests of creditors and those of the administered community. Such regulatory rebalancing, considering the intrinsically low credit risk of municipalities, could justify a more favourable and realistic assessment of assigned receivables in the balance sheets of assignees (factors), thereby supporting a more effective expansion of factoring across the entire sector.

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Value, Competitiveness and Risk in Factoring: The Role of Regulation

Summary

Introduction

In 2024, the global factoring market reached almost €3,900 billion in turnover. Two-thirds of this volume is generated in Europe, where Italy has long ranked fourth, after France, Germany, and the United Kingdom. In Italy, factoring volumes exceed 13% of GDP, and international factoring accounts for one quarter of the total market, driven in particular by Italian companies' export operations.

Factoring is a key financial instrument for supporting the liquidity and growth of businesses, especially small and medium-sized enterprises (SMEs). By assigning trade receivables to a specialised operator (the factor), companies can obtain an immediate advance on the amounts due from their customers, thus improving their working capital. This mechanism enhances firms' ability to manage cash flows, allocate resources to new investments, and maintain resilience during periods of economic uncertainty. In addition to providing funding, factors also carry out credit management and assume the risk of non-payment, helping to mitigate counterparty risk, strengthen commercial relationships, and improve operational efficiency.

The countercyclical role of factoring became particularly evident during periods of economic crisis, such as in the years following the 2008 financial crisis and during the COVID-19 pandemic. In both contexts, factoring allowed firms to sustain the financing of their production cycles even when traditional bank lending was constrained and commercial payments were significantly delayed. The instrument's flexibility and rapid execution further position it as a key element within business continuity strategies during periods of heightened difficulty.

At the macroeconomic level, greater use of factoring is associated with a more resilient productive system, reduced payment delays within supply chains, and improved export competitiveness. It is therefore no coincidence that in countries with advanced or rapidly developing industrial economies, such as Italy, France, Germany, the United Kingdom, China, and Turkey, factoring plays a strategic role in balancing production, credit, and international trade.

Market data highlight the growing relevance of factoring and call for a critical reflection on the regulatory framework governing its operations. Factoring also deserves careful consideration from a regulatory perspective, given that its operational flexibility and ability to provide immediate liquidity make it particularly suitable for smaller companies, which are often penalised by information asymmetries and weaker bargaining power in credit markets.

This research, conducted by a group of faculty and researchers from SDA Bocconi School of Management, examines the role of factoring within the economic and financial system, with particular reference to its treatment under prudential regulation and the implications this may have for the sector's future development.

The first part of the study analyses the role of factoring in the economic and financial system, with the objective of understanding its specific value for firms and for the credit market as a whole. It explores how factoring contributes to supporting liquidity, growth, and resilience, particularly for SMEs, by comparing the instrument with other working-capital financing solutions such as traditional bank lending. The analysis highlights the advantages of factoring in terms of accessibility, flexibility, operational speed, and risk mitigation, and examines its role as a strategic lever for competitiveness and for the stability of production chains. Finally, it provides a basis for assessing the impact of factoring on credit market efficiency and on the biodiversity of the financial system, laying the groundwork for evaluating the adequacy of the regulatory framework for an activity that, while distinct from banking, performs a complementary and high value-added function for the real economy.

The second part examines the regulatory framework governing factoring, addressing a central question: whether regulation acts as an enabler of market development or, conversely, as a source of distortion. The discussion is framed within the new European agenda for regulatory simplification (2024–2029), launched by the European Commission and reinforced by the Letta and Draghi reports, both of which underline the excessive complexity and stratification of the EU regulatory architecture.

In this context, the research retraces the origins and evolution of the Lamfalussy process, illustrating how the multi-level structure of financial regulation has contributed to the proliferation of rules and supervisory decision-making centres, thereby reducing legal clarity and certainty. Particular attention is devoted to the expanding role of the European Supervisory Authorities and to the increasing reliance on soft law instruments (guidelines, Q&A, recommendations), which, though formally non-binding, exert substantial influence on intermediaries' behaviour and national supervisory practice.

Factoring is examined as a paradigmatic case of the distortions generated by this model. The definition of default in Article 178 CRR and the related EBA Guidelines provide the clearest example, with effects that may be disproportionate when applied to factoring transactions and non-bank financial intermediaries. The pursuit of regulatory uniformity does not adequately reflect the operational specificities and structurally lower risk profile of specialised operators, generating a proportionality issue that may constrain competitiveness and hinder the full recognition of factoring as a structural component of the financial system.

The research concludes that regulatory complexity and excessive reliance on soft law risk undermining the coherence of the European legal framework, raising concerns of legitimacy and regulatory effectiveness. This calls for a reconsideration of the framework based on simplification, proportionality, and clarity of application.

The third part focuses on the measurement of risk in factoring operations, assessing the consistency between the sector's actual risk profile and its regulatory representation. The analysis proceeds along three lines: comparison of economic performance and credit quality between factoring companies and banks; empirical assessment of credit risk, with particular attention to exposures to Public Administrations; and quantitative estimation of the capital impact of EBA rules on default classification.

First, the comparison of the factoring and banking sectors over 2015–2024 shows that factoring is characterised by more stable earnings and higher operational efficiency, alongside a structurally lower risk profile. The data confirm that the sector maintains stable profitability even during crises, with average NPL ratios significantly lower than those of banks.

Second, the analysis of exposures to Public Administrations shows that payment delays are often attributable to procedural or administrative factors rather than to underlying credit deterioration. As a result, regulatory measures may overestimate the actual economic risk: automatic classification as "past due" after 180 days leads to impaired status even where solvency remains strong. This is corroborated by the essay included in the research, by Degni and Bianchi, which examines credit assignments to local authorities and shows that delays primarily stem from procedural complexity.

Third, the quantitative simulation of the prudential framework shows that the misalignment between a strict regulatory interpretation of default and the effective risk profile of factoring leads to excessive capital absorption and reduced lending capacity. The prudential resources thus constrained do not yield corresponding stability benefits, while they limit competitiveness and the ability of factoring firms to support businesses, particularly SMEs supplying public entities.

Based on these findings, the research team contributed to the public consultation launched by the European Banking Authority on the proposed revision of the guidelines for the new definition of default under CRR3. The considerations put forward, discussed in the third part, proved consistent with sector expectations, as confirmed by convergence with other consultation responses.

Overall, the research underscores the need to recognise and value the role of factoring within a regulatory framework that reflects its specific characteristics and actual risk profile. As in other parts of the financial system, regulation plays a decisive role in shaping business models and prudent management practices. A framework that assimilates factoring to traditional lending risks overlooking its distinctive features, with distortive effects on market supply and firms' access to finance. Conversely, a framework that acknowledges its specificities enables full realization of its benefits for financial stability, competition, and support to the real economy.

Among the measures examined, a more coherent interpretation of the definition of default in relation to the effective risk characteristics of assigned receivables is particularly advisable, in order to avoid penalising classifications stemming solely from technical or administrative payment delays. Taking the specific nature of factoring into account when designing prudential rules should aim to ensure proportionality, not only in terms of size, but also in terms of business model and risk profile, and a level playing field among operators.

Ultimately, a definition of default that adequately reflects the characteristics of factoring and the unique role it plays among working capital financing instruments could significantly contribute to the development of the financial system in support of Italy’s economic growth.

Part One. The Role of Factoring in the Economic and Financial System (Paola Schwizer)

Factoring today represents a structural component of advanced financial systems and an essential channel of support for businesses, particularly small and medium-sized enterprises (SMEs), which play a central role in the European economic system. Its diffusion is not confined to its role as an alternative to bank lending; rather, factoring has emerged as a distinct form of financing, capable of combining liquidity provision, trade receivables management, and credit risk mitigation.

The first part of the research seeks to define the role of factoring within the economic and financial system, analysing the contribution it offers to both current and potential clients in comparison with the other sources of corporate financing available on the market, and highlighting its advantages, development potential, and critical issues.

More specifically, the analysis examines the core functions of factoring, with particular attention to the ways in which the instrument supports firms' liquidity, growth, and resilience. In this context, factoring is compared with other forms of working capital financing, such as traditional bank lending, in order to highlight the differences in accessibility, cost structure, flexibility, operational speed for the client, and risk profile for the intermediary. The study then considers the strategic relevance of factoring, especially for SMEs and for firms undergoing transitional phases (such as expansion, internationalisation, or restructuring).

Finally, the research provides elements for a system-level assessment, analysing the impact of factoring on credit market efficiency, financial stability, and the competitiveness of financial offerings. By identifying the specific sources of value generated by factoring, this first part of the study lays the foundation for assessing the adequacy of the regulatory framework applicable to factoring transactions, an area in which, in some respects, these operations are treated similarly to banking products, despite being only partially comparable. This topic will be examined in greater depth in the second and third parts of the research.

1.1 The Strategic Role of Trade Credit

Trade credit represents the main form of short-term financing for companies, especially SMEs, and functions both as a substitute for and a complement to bank lending. It serves as a strategic lever for managing liquidity, mitigating financial constraints, and strengthening relationships of trust along the value chain.

Trade credit, or supplier credit, is an arrangement whereby a company (the seller) grants its customers a deferment of payment for goods or services supplied, allowing them to pay at a date subsequent to delivery. In other words, the seller provides financing to the buyer and thereby becomes a creditor (Summers & Wilson, 2003).

The use of trade credit is extremely widespread and represents the most important form of short-term financing for firms. It accounts for around 40% of the current liabilities of non-financial corporations, particularly for smaller firms that often face credit constraints from the banking system (Cerved data). This explains why, for a significant number of SMEs, trade receivables represent a more important source of working capital than bank loans (Greater London Enterprise, 2003).

Even in a phase of economic slowdown, trade credit continues to play a strategic role for Italian firms (Assifact, 2025). The lengthening of collection times and the persistent vulnerability of certain industrial sectors underline the urgency of strengthening credit management strategies and adopting more effective solutions to finance working capital and generate immediate liquidity, especially for small and medium-sized enterprises, which are most exposed to such challenges.

According to the Survey on the Access to Finance of Enterprises conducted by the European Commission, over 30% of firms in the Eurozone consider trade credit to be a significant source of financing, a percentage that has remained almost stable over the past three years. In Italy and Spain, the use of trade credit as a financial lever is higher than the European average, while in France and Germany its use is less widespread, although it has increased slightly since 2022 (Assifact, 2025). In the United States, trade credit is the primary form of short-term financing for firms,

with Costello (2019) finding that 90% of commercial transactions rely on supplier credit.
Trade credit therefore plays a key role in short-term corporate financing, particularly when access to bank credit is limited. In such cases, it may act as a substitute for bank funding. In other situations, it may act as a complement, helping firms improve their creditworthiness and obtain bank financing more easily (Bussoli & Marino, 2018).
The advantages of trade credit compared with traditional bank financing have been widely analysed in literature and may be classified into financial and real factors (Finest, 2014).
The main theories are well summarised in Costello (2019)[1]. According to a first stream of research, often referred to as the “financial theory”, trade credit alleviates frictions and inefficiencies in the bank–firm relationship. These frictions become more pronounced in periods of credit restriction or financial crisis. From this perspective, large firms, or those with better access to bank lending, extend trade credit to financially constrained customers, thereby redistributing liquidity during downturns. However, Gonçalves et al. (2018) point out that this effect must be considered alongside market power and competitive conditions, since even large firms may face difficulties in securing financing during crises.
Additional evidence supporting the benefits of trade credit relates to the informational advantage the supplier holds over banks, especially regarding the liquidation value of assets and the likelihood of recovery (the so-called “collateral theory”). A complementary line of research argues that this informational advantage also stems from the greater frequency and depth of supplier–customer relationships compared with bank–firm relationships. This reduces moral hazard on the part of debtors and lowers monitoring costs for suppliers. At the same time, suppliers, by monitoring their customers, may help improve the quality of their management. Uchida et al. (2006) argue that when suppliers also gather soft information on clients, they effectively act as “relationship lenders.”
Suppliers may also derive greater benefit than banks from maintaining strong customer relationships. This may lead them to extend credit to financially

[1] For a detailed discussion of the sources underlying the referenced studies, please refer to Costello (2019).

distressed firms to a greater extent than banks would in a competitive credit market.
Several studies also suggest that trade credit can facilitate the transmission of monetary policy impulses from large to small firms. De Blasio (2004) revisits Meltzer’s (1960) argument regarding the substitution of trade credit for bank credit during periods of tight monetary policy. When credit tightens and liquidity declines, firms with restricted access to bank lending may reduce inventories to free up resources. However, they may also turn to trade credit, financing working capital by obtaining extended payment terms from suppliers or by reducing the payment periods granted to their customers. Trade credit can therefore act as a buffer, mitigating the negative effects of reduced bank credit availability. The effectiveness of this substitution influences the ultimate impact of monetary tightening on business activity. De Blasio (2004) also notes that the volume of trade credit exceeds that of short-term bank lending in most developing and industrialised countries, and that in Italy both received and extended trade credit volumes are among the highest.
Huang et al. (2010), studying China, show that substitution between trade credit and bank credit is countercyclical, as it increases during downturns and supports the production of real goods.
With respect to the “real” motivations for using trade credit, these relate to the fact that trade credit can function as a marketing tool, enabling suppliers to expand into markets that are particularly sensitive to payment conditions (Nadiri, 1969; Centrale dei Bilanci, 1997; Finest, 2014). The importance of these motivations is also linked to the frequent use of cash discounts for immediate payment. Moreover, trade credit may allow customers, especially newly acquired ones, to evaluate product quality before paying (Finest, 2014).
SMEs also extend trade credit to larger firms. Marotta (1995) notes that SMEs may tolerate late payment when the cost is lower than that of gathering information on the buyer’s creditworthiness, given the buyer’s strong reputation (Smith, 1987). Several studies have shown that offering trade credit is an important tool for small firms to attract large customers and signal both reliability and financial soundness (Petersen & Rajan, 1997).

Overall, trade credit is therefore a crucial tool for managing liquidity, offering flexible payment terms to expand customer bases, strengthening customer loyalty, increasing turnover, and reducing financing costs. Its use depends on the duration of payment terms, the availability of internal funds, and access to bank loans.
Summers & Wilson (2000) identify six activities associated with extending credit to customers:

1. assessment of customer credit risk;
2. decisions regarding credit terms and, where applicable, credit limits;
3. collection of receivables and management of recovery actions;
4. monitoring of customer behaviour and gathering of management information;
5. assumption of insolvency and payment delay risk (counterparty/settlement risk);
6. financing the investment in trade receivables.

As noted by Benvenuti & Gallo (2004), these activities affect at least three aspects of firm management: organisational structure (due to the need to assess and monitor creditworthiness and manage recovery procedures); financial needs (linked to the net position between receivables and payables); and risk profile (as financial risk is added to operational risk).
Firms have two options for managing trade credit: they may handle the process internally, taking responsibility for all phases, or they may outsource part or all of the process to specialised operators. These include factoring companies, invoice financing providers, credit insurance companies, credit information agencies, and debt collection firms (Summers & Wilson, 2000; Soufani, 2002). The choice between internal management and outsourcing depends on factors such as firm size, available expertise, and risk appetite (Summers & Wilson, 2000; Benvenuti & Gallo, 2004).
Empirical studies (Soufani, 2002; Summers & Wilson, 2003) show that firms that outsource trade credit management through factoring tend to have:

- lower firm age,
- lower turnover,
- operations in sectors with high levels of trade credit,

- private or family ownership,
- financial stress or difficulties in obtaining bank credit.

It follows that small and medium-sized enterprises are those that most frequently outsource trade credit management.

Unlike large firms, which typically have more complex organisational structures and dedicated internal resources for credit assessment and recovery, SMEs often lack specialised capabilities or sufficient personnel to manage the entire credit administration process effectively. Given its importance, this issue will be further examined in paragraph 1.7.

1.2 The Value of Factoring for Businesses

The value of factoring is linked to certain specific features of the transaction that make it an accelerator of companies' production, commercial, and financial processes, as well as a mitigant of credit risk for both sellers and factors. The uniqueness of factoring lies in its nature as a structured and multifaceted instrument for the financing and management of working capital.

Factoring is, first of all, structured as a triangular contract, through which a business ("the seller" or "assignor") undertakes to transfer monetary claims (e.g., invoices issued to customers) arising from contracts entered into in the course of business ("trade receivables") to another professional operator ("the factor") in exchange for a consideration. The assignment of receivables takes place according to specific legal forms and, in Italy, is governed by the Civil Code and Law No. 52 of 1991. Factoring is therefore a flexible instrument for financing corporate working capital, secured by the transfer of trade receivables. It falls within the broader set of asset-based finance (ABF) techniques, in which credit is granted on the basis of the value of collateral rather than solely on the creditworthiness of the counterparty (Udell, 2004). However, unlike asset-based lending, also part of ABF, factoring involves the transfer of receivables to the factor rather than their use as collateral for a loan (Bakker et al., 2004). The financing granted is explicitly linked, according to a predetermined logic, to the value of the underlying assets (working capital) of the debtor, and not to its overall solvency. This linkage is managed continuously to ensure that the value of the underlying assets always exceeds the amount of credit granted.

Secondly, the transaction includes two components, financial and service-related, which are inseparable. The factor not only advances a substantial portion of the assigned receivables (thus generating immediate liquidity for the assignor), but also manages the receivables assigned to it, taking responsibility for their bookkeeping, collection, and a range of ancillary advisory, support, and information services.

Factoring therefore represents both a form of working capital financing and a support service for the management of trade credit. This combination of services is one of the key advantages of factoring compared with other forms of financing, particularly for SMEs that do not have the skills or resources required to manage credit granting and collection activities internally.

Thirdly, the factor may also assume the risk of non-payment by the debtors, thereby relieving the assignor from the obligation to reimburse the amount of the assigned receivables in the event of default by the debtor. In such cases, the factor provides both management and protection of receivables, in a manner tailored to the needs of the assignor. Over time, the sector has demonstrated strong capabilities in managing and preventing credit risk, without requiring extensive additional collateral (Galmarini & Tavecchia, 2015).

Factoring can also be especially useful for providing financing to high-risk or information-opaque firms, since credit risk assessment is based on the quality of the seller’s trade receivables and not solely on the seller’s own risk profile. As a result, factoring is particularly suitable for financing receivables owed by large or foreign companies, which are often more solvent than the factor’s client (Bakker et al., 2004).

Additional features that significantly enhance the flexibility and adaptability of factoring include the possibility of assigning future receivables and past-due receivables. Article 3 of Law No. 52/1991 on the assignment of trade receivables expressly allows the transfer of receivables that have not yet arisen, even prior to the execution of the contracts from which they will originate. These receivables must derive from business activity and from contracts to be concluded within a limited time frame (generally 24 months).

The acceptance of past-due receivables may occur in exceptional cases linked to sector practices, for example, in the case of Public Administration, where the bargaining power of client companies often allows them to pay suppliers with significant delay (Udell, 2004).

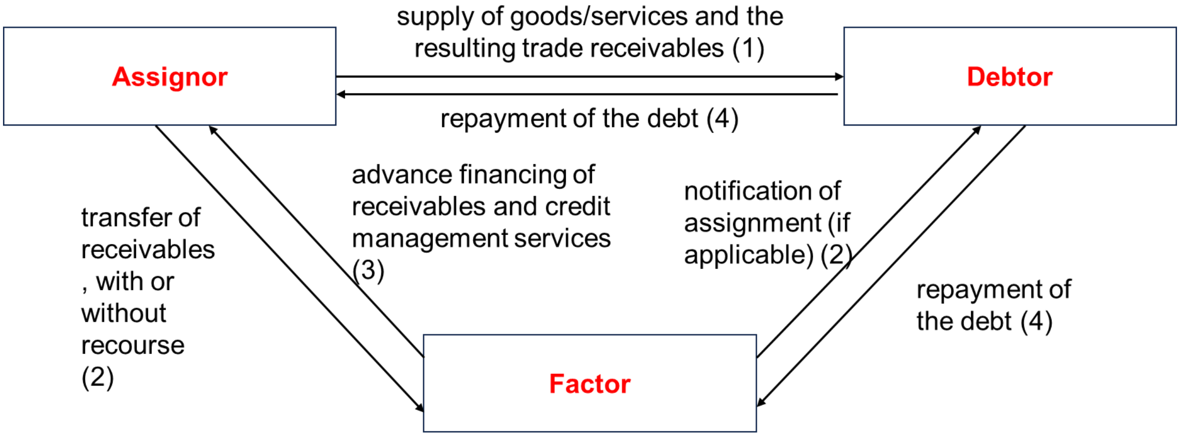
Finally, factoring can play an important role in financial systems characterized by weak commercial law, ineffective contract enforcement, and inefficient bankruptcy procedures. In such contexts, the advantage of factoring is that the assigned receivables can be excluded from the debtor’s bankruptcy estate and become the property of the factor (Bakker et al., 2004).

The specific features of factoring described above can be better understood by examining the technical structure of the transaction. As shown in Figure 1.1, a factoring operation involves several stages. When payment is deferred under a supply contract concluded between the debtor (the buyer) and the supplier company that is the factor’s client (the seller/assignor), once the goods or services have been delivered (1), a receivable arises (4), which the seller transfers to the factor, with notification to the debtor where applicable (2), under a previously concluded factoring contract between the factor and the assignor.

The factor:

- manages the collection and accounting of the receivable (credit management) (4);
- may advance all or part of the receivable amount to the assignor (financing) (3);
- may provide protection in the event of default by the debtor (guarantee or non-recourse factoring) (2).

Figure 1.1 The structure of a factoring transaction



Souce: Author's elaboration of EBA, 2025, p.21

The presence or absence of the guarantee function determines the distinction between:

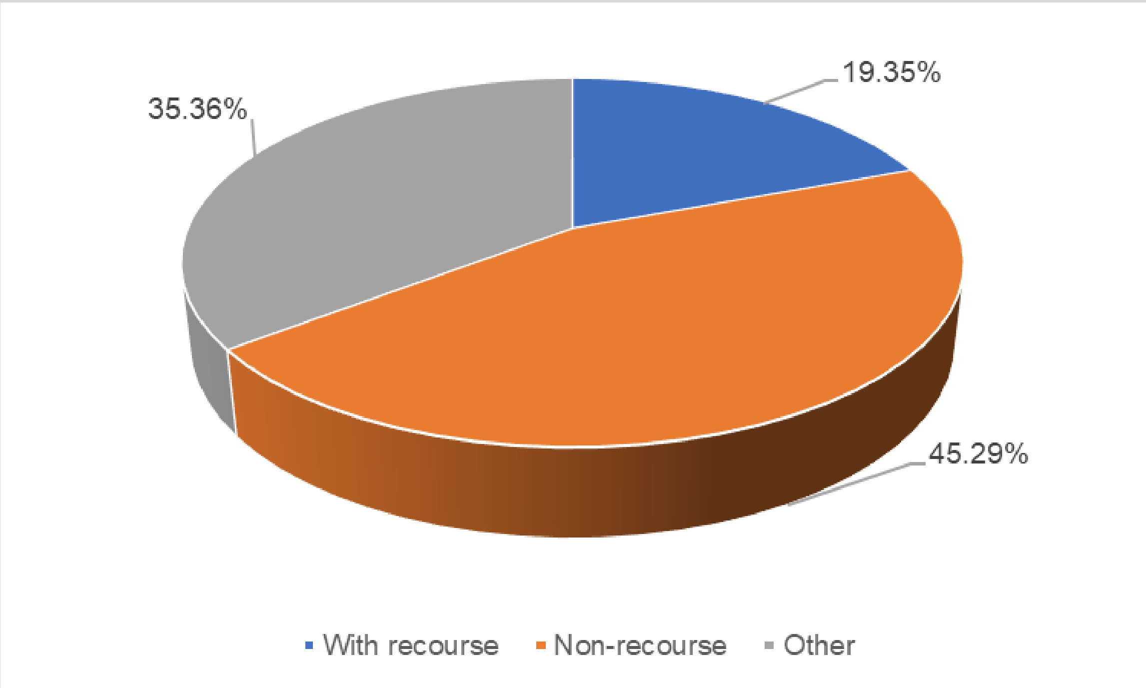
- recourse factoring (factoring pro solvendo), in which the factor has recourse to the assignor in the event of non-payment by the debtor (the assignor guarantees payment of the receivable);
- non-recourse factoring (factoring pro soluto), in which the factor does not have recourse to the assignor in the event of non-payment by the debtor (the assignor does not guarantee payment), up to a limit corresponding to the level of credit risk assumed by the factor.

In recourse factoring, the assignment of the receivable does not lead to its derecognition from the assignor's balance sheet, since the risk of debtor default remains with the assignor. The factor manages the receivable but does not bear the risk of non-payment. Consequently, receivables assigned pro solvendo remain recorded in the assignor's statement of financial position.

Conversely, in non-recourse factoring, under IFRS 9, receivables may be derecognised from the assignor's balance sheet provided that no contractual clauses require the assignor to retain risks or benefits associated with the receivables. Factoring exposures are therefore classified as pro soluto for accounting and supervisory reporting purposes only when both (i) derecognition by the assignor and (ii) recognition by the factor occur, in accordance with international accounting standards (IFRS 9) and Bank of Italy Circular No. 272 of 30 July 2008 (matrix model) and Circular No. 217 of 5 August 1996 (Supervisory reporting manual for financial intermediaries).

The relevance of the service component in factoring can be observed through the weight of non-recourse factoring relative to recourse factoring in turnover (i.e., the nominal value of receivables purchased during the year), and through the performance of the financing component, measured by the ratio of outstanding advances at year-end to total receivables outstanding (Capizzi & Ferrari, 2001). Chart 1.1 shows the importance of non-recourse factoring as a share of the total, while Table 1.1 illustrates the evolution of the ratio between advances and outstanding receivables and the weight of the non-recourse component on total turnover over the past six years.

***Chart 1.1 Turnover Breakdown as of 31 December 2024*[2]**



Source: Author's elaboration of Assifact data, *Factoring Market Report 2024*.

Table 1.1 shows that the guarantee service and the financing function of factoring display an overall aligned trend over time.

[2] The category "Other" includes *"Outright Purchases"*, *"Purchases Below Nominal Value and Purchases of Non-Performing Loans"*, and *"Purchases of VAT and Tax Credits"*. Within this category, only for the cumulative Turnover figure, the activity related to *"Purchases of Tax Credits deriving from Construction Incentives"* is also included, with a cumulative turnover of €11,662,853 thousand.Source: Assifact, 2025.

Table 1.1 Trends in Advances and in the Non-Recourse Segment: 2019-2024

Year	**Advances / Outstanding**	***Non-Recourse Turnover /Total Turnover***
2019	71.40%	73.29%
2020	69.26%	75.13%
2021	65.87%	75.33%
2022	71.89%	75.04%
2023	71.38%	76.17%
2024	71.64%	77.18%

Source: SDA Bocconi, Ossfin 2025[3]

A further distinction concerns whether or not the assignment is notified to the debtor (step 2 in Figure 1.1). In the first case, where the debtor has been informed of the assignment, payment is normally made directly to the factor. In the case of non-notification factoring, the existence of the factoring contract and the assignment remains confidential and, since the debtor is not aware of it, payment is made directly to the assignor, within the framework of the commercial relationship between the two parties. The possibility of not notifying the debtor represents an additional element of flexibility in factoring. In fact, this practice helps to limit the impact of the transaction on the relationship between the supplier (assignor) and its customers, while also avoiding the communication of perceptions, impressions or mere indications of the assignor’s financial difficulties to third parties (Udell, 2004).

The factoring contract, entered into between the factor and the assignor, remains in any case independent of the supply contract between the assignor and the debtor from which the receivables originated.

The development of factoring has also led to new forms of service and financial support for both assignors and debtors. For the assignor, for example, the intermediary may activate maturity factoring, which does not involve the advance of receivables at the time of assignment, but instead provides for payment of the consideration to the assignor on a date mutually agreed with the factor, thereby allowing improved planning of cash flows.

[3] The Ossfin Observatory 2025 dataset includes 18 factoring companies.

The factor may also grant extensions of payment to the debtor, by virtue of the triangular nature of the transaction, which allows a direct relationship between these two parties as well (Tagliavini et al., 2022).
More generally, the evolution of factoring has fostered the development of supply chain finance services, i.e., sets of financial and collaborative solutions, provided by financial institutions or technological platforms, aimed at optimising working capital flows across supply chains by integrating financial flows with physical and informational flows, thereby strengthening liquidity, efficiency, and overall supply chain resilience (Gelsomino et al., 2016; Apike et al., 2025).
Within this framework lies reverse factoring (or supplier finance), through which the purchasing firm (in the role of debtor) requests that a financial intermediary (the factor) take over its payables to suppliers, with the aim of optimising payment management and financial flows. This arrangement enables suppliers to collect invoices in advance, obtaining liquidity at favourable rates, while the purchasing firm can improve the management of its payables cycle and reinforce relationships with strategic suppliers.

1.3 The Factoring Market and Its Resilience in Times of Crisis

From its origins in the 19th-century American textile industry to its central role in today's European economy, factoring has established itself as a constantly and rapidly developing source of liquidity, capable of expanding even during periods of crisis and supporting over 11% of European GDP and 14% of Italian GDP.

Modern factoring originated in the United States in the nineteenth century to support international trade in the textile sector, where wholesalers advanced funds to manufacturers in exchange for their receivables from customers[4]. Over time, factoring became established as a means of financing credit sales, with a progressive separation of its two main functions: the management and collection of receivables and the provision of financial advances (Asselbergh, 2002).

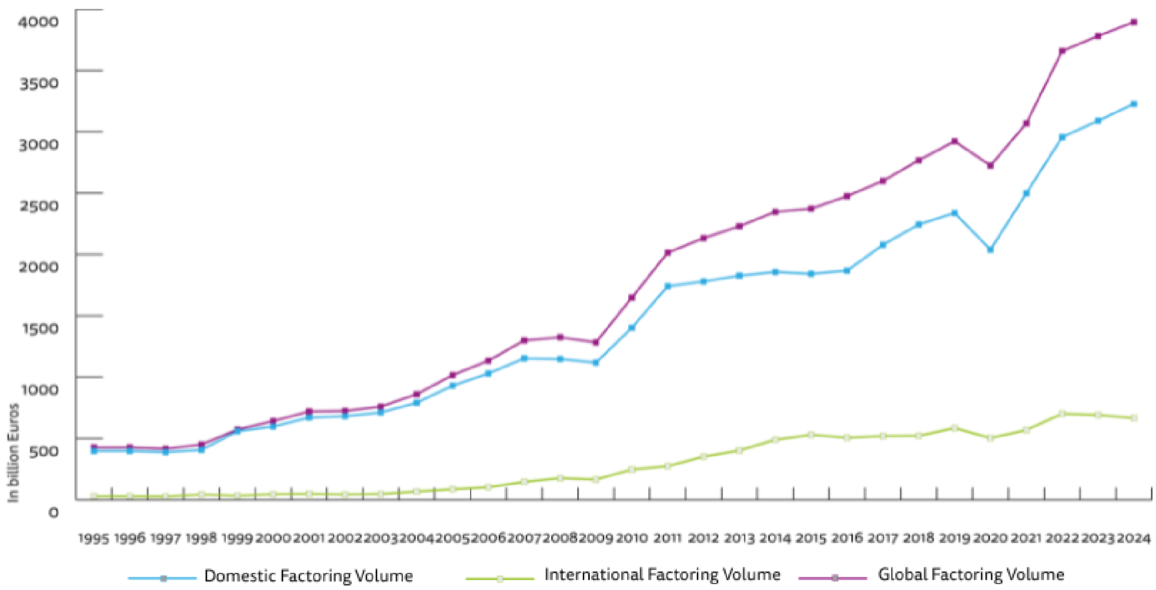
[4] Evidence of the development of factoring in earlier periods can be found in Asselberg (2002), Bakker et al. (2004), https://www.invoicefinance.news/the-history-of-factoring/; https://www.tradefinanceglobal.com/posts/what-is-the-history-of-factoring/.

In Europe, factoring began to develop in the 1960s and experienced significant growth from the 1980s onward, supported by credit restrictions on bank lending, the deregulation of financial markets, and the emergence of new needs related to working capital management.

The global factoring market has been growing steadily for more than a decade, with the only exception being the year in which the COVID-19 pandemic broke out. In 2024, it reached almost €4 trillion in turnover, recording an increase of 2.7% compared to the previous year (Figure 1.2).

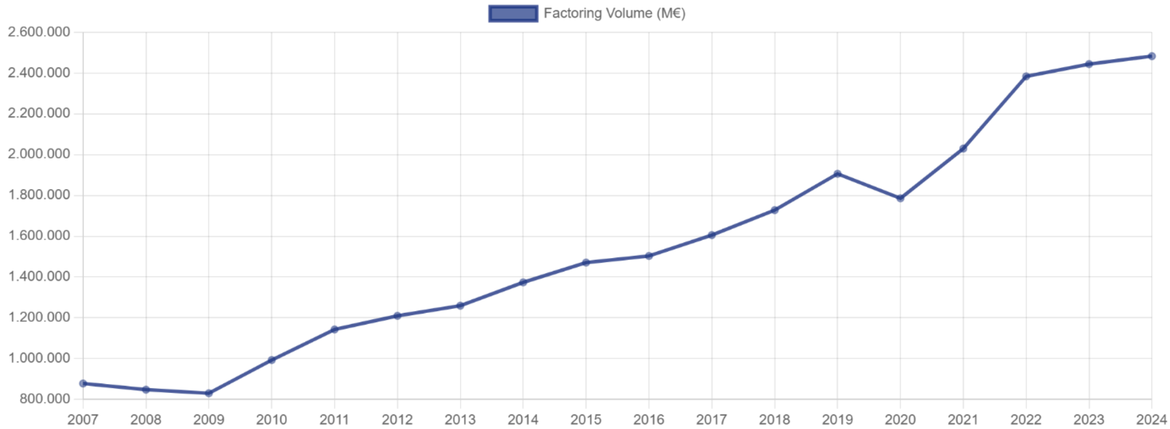
Approximately two-thirds of the global market (67%) is generated in Europe (Figure 1.3), where Italy consistently ranks fourth, after France, Germany, and the United Kingdom (Table 1.2). In 2024, sector turnover represented 11.2% of European GDP (EUF data) and around 13% in Italy (Assifact data).

Figure 1.2 The Growth of the Global Factoring Market



Source: Factors Chain International, Industry Statistics https://fci.nl/en/industry-statistics

Figure 1.3 The Evolution of Factoring in Europe: 2007–2024 (Turnover in € millions)



Source: EUF, https://euf.eu.com/data-statistics/annual-factoring-data.html (ultimo accesso 14 luglio 2025)

Table 1.2 Factoring Volumes in Major European Countries (Turnover in € Millions)

31 December 2024	Turnover	% change vs 2023	% GDP	European market share
Austria	36,244	-0.6%	7.5%	1.5%
Belgium	138,610	2.1%	22.5%	5.6%
France	431,381	1.1%	14.8%	17.4%
Germany	398,771	3.7%	9.3%	16.1%
Greece	27,074	9.7%	13.4%	1.1%
Italy	298,538	1.0%	13.6%	12.0%
The Netherlands	157,039	-6.8%	13.8%	6.3%
Spain	266,652	-1.4%	16.7%	10.7%
Total Europe	**2,483,188**	**1.0%**	**11.2%**	**100.0%**

Source: EUF (GDP at Current Prices)

With regard to the factors that have driven the development of factoring across countries, macroeconomic and commercial dynamics have played a decisive role, particularly from the 1960s onwards. The expansion of consumer goods production, the intensification of international trade flows, and the increased volatility of national currencies have collectively stimulated the global growth of the industry. In this perspective, the evolution of factoring appears closely linked to firms' liquidity needs and to the progressive integration of markets. More recently, however, according to a World Bank study (Bakker et al., 2004), the spread of factoring across European countries has been closely linked to the formal recognition and regulation of the activity within national legal systems, in ways that frame factoring as a financial service and enhance its value in the marketplace.

1.4 The Factoring Industry in Italy: A Sector of High Diversity and Specialisation

The factoring industry, which is predominantly composed of specialised intermediaries often operating within banking groups, combines dedicated expertise with flexible organisational models. This contributes to strengthening the biodiversity and resilience of the financial system, while also enhancing the product-specific capabilities required to carry out the activity.

The factor, or assignee, is typically a bank or a financial intermediary governed by Title V of the Testo Unico Bancario (Consolidated Banking Act – TUB), whose corporate purpose includes the purchase of business receivables, or a company incorporated as a joint-stock corporation that purchases receivables owed by third parties to entities within the same group that are not financial intermediaries, or receivables owed by third parties to companies within the group, without prejudice to the activity reserved under the TUB.
The specific characteristics of factoring operations, in terms of their structure and complexity, as described in the previous paragraphs, are reflected in the composition of the supply side of the market. The industry is predominantly composed of specialised financial intermediaries enrolled in the dedicated register pursuant to Article 106 of the Consolidated Banking Act, or specialised banks, rather than commercial banks operating under the universal banking model. Unlike traditional and specialised banks, non-bank specialised intermediaries generally focus on a single business area and do not collect deposits from the public. This reduces both individual and systemic risk, due in part to lower operational and organisational complexity and a more limited liquidity risk profile. Given the specific nature of the processes involved and the expertise required, banks themselves have, in most cases, chosen to carry out factoring activities

through dedicated specialised intermediaries. Most Article 106 intermediaries therefore belong to banking groups (Table 1.3).

Table 1.3 Breakdown of Article 106 Intermediaries: Banking Groups vs. Other Operators

Type of Intermediary	% turnover
Article 106 Intermediaries Belonging to Banking Groups	47.08%
Article 106 Intermediaries Not Belonging to Banking Groups	4.78%
Total	51.86%

Source: Assifact data referring to member firms, as at 31 December 2024

The data collected over the years by the Ossfin Observatory of SDA Bocconi (Table 1.4) show that Article 106 intermediaries hold a larger market share than banks, although this share has declined over time due to the growth of specialised banks, standing at 55.42% at the end of 2024. This decrease is explained largely by the internalisation of factoring activities within certain Italian banks.

Table 1.4 Market Share in Advances and Turnover: Factoring Companies vs. Banks (Advances in €bn)

	Factoring Companies		Banks	
	Advances	Market Share	Advances	Market Share
31/12/2010	25,267	83.69%	4,923	16.31%
31/12/2011	28,521	83.90%	5,472	16.10%
31/12/2012	29,131	84.67%	5,275	15.33%
31/12/2013	26,598	83.28%	5,339	16.72%
31/12/2014	18,210	53.89%	15,582	46.11%
31/12/2015	18,955	53.68%	16,358	46.32%
31/12/2016	21,941	55.33%	17,711	44.67%
31/12/2017	24,254	56.49%	18,682	43.51%
31/12/2018	26,867	58.10%	19,377	41.90%
31/12/2019	25,612	56.88%	19,420	43.12%
31/12/2020	24,010	60.10%	15,942	39.90%
31/12/2021	25,369	62.17%	15,435	37.83%
31/12/2022	28,252	60.15%	18,715	39.85%
31/12/2023	26,497	57.01%	19,981	42.99%
31/12/2024	27,584	55.42%	22,193	44.58%

Source: SDA Bocconi, Ossfin Observatory, 2025.

The specific capabilities required for the effective management of factoring involve product expertise not only within the commercial structure, but also across support functions and management. They also require dedicated information systems, credit risk assessment processes that take into account both the assignor and the debtor, as well as the commercial relationship between them, and an in-depth understanding of markets and of the characteristics of supply relationships by sector and counterparty (for example, with reference to Public Administration procurement processes). This explains why the specialised-intermediary model has prevailed, including within banking groups, as it ensures more flexible structures focused on a single product and less exposed to credit and liquidity risks (Galmarini & Tavecchia, 2015). Such specialisation is naturally more effective when placed within a regulatory framework that recognises the specific contribution that factoring provides to firms and to the economic system, ensuring, on the one hand, competitive fairness and, on the other, alignment between the actual risk profile of the activity and the safeguards, including regulatory safeguards, for prevention, mitigation, and control.

The fact that banks themselves are key players in the factoring sector, primarily through their specialised subsidiaries, shows that the two channels are not in conflict, but rather complementary: factoring integrates and enriches the range of financing options, filling segments of demand that traditional bank lending struggles to serve effectively (for example, SMEs without collateral or firms with complex credit-management needs).

The presence of a variety of intermediary types in the factoring market contributes to the "biodiversity" of the financial system, understood as the coexistence of multiple operators with different corporate purposes, business models, levels of operational complexity, and sizes. In this regard, Beccalli (2023) notes that the history of the Italian banking system is marked by a progressive layering of financial institutions that has contributed to increasing such biodiversity, an element of value to be preserved and promoted, as it generates significant benefits for the real economy, supporting growth, fostering competition, and contributing to the overall stability of the financial system, especially during periods of crisis.

According to the same author, the biodiversity of intermediaries results in a more robust and resilient financial system. It supports, first, greater allocative efficiency, thanks to the ability of diverse actors to respond to differentiated needs of households and businesses. Second, it promotes innovation, stimulating the development of new products and services better suited to evolving market conditions. Third, the presence of a diversified range of operators reduces the system's vulnerability to idiosyncratic shocks, thereby strengthening its resilience. Finally, biodiversity fosters financial inclusion by expanding access to banking and credit services to a broader range of economic agents, with positive effects on growth and social cohesion.

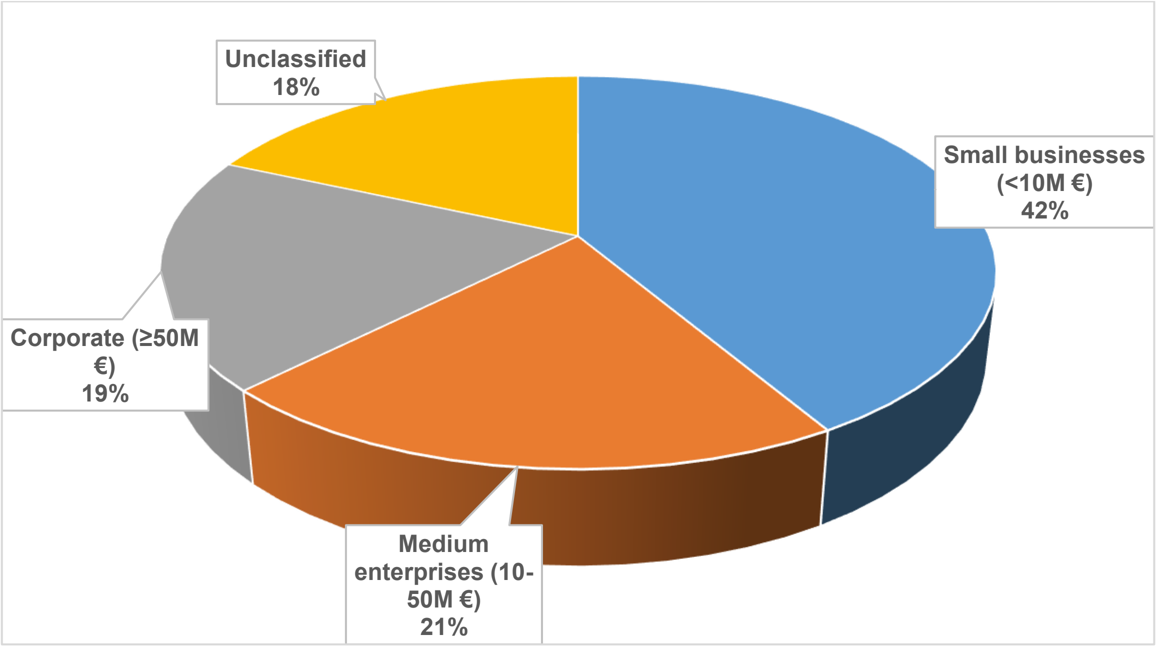
1.5 Demand for Factoring in Italy

The supply of factoring services today meets an increasingly broad and diversified demand, which shows a high level of satisfaction with the service. For SMEs, factoring represents a safeguard of liquidity and resilience; for corporates, it is a strategic lever for efficiency and growth. This confirms the multifaceted nature of an instrument capable of adapting to heterogeneous needs across sectors, supply chains, and company sizes.

Factoring is being used increasingly by a diversified range of firms, with different dynamics across sectors and company sizes (Assifact, 2025). At the European level, SAFE data show that factoring is more widely adopted by industrial firms, medium-to-large enterprises, innovative companies, and exporters, while it remains less common in the services, retail, and construction sectors.

In Italy, the number of firms using factoring reached 32,431 in 2024, slightly higher than in the previous year, while the average number of assigned debtors per firm has increased, confirming greater market penetration and a more articulated network of commercial relationships. Notably, 42% of active assignors are companies with annual turnover below €10 million (Chart 1.2).

Chart 1.2 Breakdown of Active Assignors by Company Size (Annual Turnover), 31 December 2024



Source: Author's elaboration of Assifact Data, *Report on the Factoring Market* 2024

From a sectoral perspective, manufacturing remains the main reference macro-sector, with over 9,000 firms using factoring. However, the weakness of industrial production has negatively affected the turnover generated by SMEs. By contrast, large corporates have maintained greater stability in flows, offsetting the decline recorded among smaller firms. In the services sector, demand appears more fragmented, with a contraction among SMEs and a more stable trend among larger enterprises.

Two factors explain the widening of the client base: on the one hand, investments by operators in digitalisation and process automation, which have made access to factoring simpler and more immediate even for smaller firms; on the other hand, the increasing diffusion of supply chain finance programmes, through which large lead firms have encouraged their suppliers, particularly SMEs, to use factoring to stabilise their financial position.

Demand for factoring therefore shows an overall positive trend, with growing inclusion of SMEs, albeit with signs of sectoral heterogeneity.

Qualitatively, according to the survey on factoring demand conducted by Assifact in collaboration with KPMG in 2023, factoring in Italy addresses a broad set of working capital management needs that go beyond the mere need for liquidity. The research indicates a high usage rate (over 80% of the companies surveyed currently make use of factoring) and a generally stable and recurrent relationship with factors, although not an exclusive one, with frequent assignment of receivable portfolios, including future receivables. The prevailing forms are non-recourse factoring and maturity factoring, confirming factoring's role as a financial stabilisation tool and not merely a source of liquidity advances.

From an experiential standpoint, factoring records higher satisfaction levels than other working-capital support instruments, thanks to three main strengths: speed and reliability in the provision of funds, professional credit management, and coverage of insolvency risk. However, some challenges remain, including perceived high costs, limited integration with firms' ERP systems, and a smaller-than-expected reduction in internal credit management costs.

Finally, the growing focus on digitalisation and fintech solutions opens new perspectives: firms are showing interest in integrated and interoperable platforms enabling access to multiple financiers and supply chain finance solutions, signalling a demand oriented not only toward liquidity but also toward a technologically advanced, service-integrated ecosystem.

Moreover, demand for factoring varies depending on firm size. SMEs tend to value factoring primarily for its guarantee function and operational support: the transfer of insolvency risk, regularisation of cash inflows, and the possibility of outsourcing credit management are the main perceived benefits. In this sense, factoring strengthens the financial and organisational resilience of less structured firms, allowing them to free up resources to focus on core business activities.

Conversely, large corporates interpret factoring in a more strategic way, valuing its ability to optimise the balance sheet (through receivables derecognition) and to support growth and international expansion plans. In these contexts, factoring plays a complementary and sophisticated role alongside bank lending, forming part of a diversified portfolio of financial instruments.

In summary, while for SMEs factoring represents above all a safeguard of financial stability and an outsourced managerial service, for corporates it is a driver of financial efficiency and planning. This confirms the multifaceted nature of the instrument and its ability to adapt to heterogeneous needs across supply chains and firm size classes. This is consistent with recent market trends (Assifact, 2025), which highlight the dual role of factoring: on the one hand, as a preferred instrument for more structured, export-oriented firms; on the other, as a lever to support liquidity and resilience among smaller firms, enabled by digitalisation and integration into supply networks.

1.6 The Advantages of Factoring Compared with Traditional Bank Lending

Factoring is not only an alternative to traditional bank lending, but also a complementary and more advanced instrument, capable of integrating financial support, risk management, and operational services. Its convenience depends on a set of internal and external drivers, yet the range of benefits it offers, in terms of liquidity, resilience, and flexibility, makes it particularly suitable for companies seeking to support growth and strengthen their financial position in contexts marked by volatility and uncertainty.

The working capital financing needs of firms may be met in various ways, through financial instruments such as bank credit facilities, invoice advances, factoring services, and trade finance guarantees (Munari, 2024), as well as market instruments such as commercial bills or commercial paper, and the securitisation of trade receivables (Eun & Rensnick, 2018; Gibilaro, 2019). Traditional bank credit, whether in the form of overdraft facilities, bank invoice advances, or short-term loans, represents the classic solution for working capital financing. Within this context, the instrument most comparable to factoring is the invoice advance, which is therefore the primary term of comparison.
Unlike factoring, in which a bank or specialised intermediary purchases the trade receivables, bank financing provides liquidity in the form of a loan to be repaid, typically guaranteed by the firm’s own creditworthiness and/or collateral, including

the invoices representing trade receivables. Firms often use both solutions simultaneously, which explains why factoring is frequently considered complementary to bank lending (Bussoli & Marino, 2018).

However, there are significant differences between the two forms of financing, and specifically between invoice advances and factoring, which highlight the advantages of the latter. First, invoice advances constitute a simple monetisation of receivables, while factoring, as seen, combines the financial component with additional management services and, in the case of non-recourse factoring, also insurance-type protection. In factoring, the intermediary acquires full ownership of the receivables and assumes full responsibility for their management; however, even in recourse transactions, receivables are managed by the factor.

The triangular nature of the factoring arrangement, one of its distinctive features, including in its financial component (Tagliavini et al., 2022), means that the intermediary deals directly with collections and may also grant extensions or payment delays to the debtor. The creditworthiness of the debtor is assessed by the factor, in addition to that of the assignor. This does not occur in invoice-advance financing, where no triangular relationship exists and the liquidity provided is strictly linked to the assignor's own rating and to the credit line agreed with the bank[5].

In summary, factoring provides firms with immediate liquidity and greater financial flexibility: it accelerates the collection of receivables, providing cash without waiting for payment terms to expire. This helps firms meet both temporary and structural liquidity needs, especially when operating under extended payment terms. Cash flows become more predictable and easier to plan, supporting business continuity and enabling firms to seize market opportunities without financial constraints. Moreover, the amount that may be financed increases with turnover, making factoring a scalable tool that supports growth. In this sense, the factor can intervene earlier than banks in the firm's development cycle, based on its turnover and receivable volumes.

[5] https://www.bancaifis.it/voce-esperti/factoring-e-anticipo-fatture-somiglianze-e-differenze/

Reaching financial self-sufficiency does not necessarily lead a firm to discontinue factoring, since the firm may choose to continue outsourcing credit-management activities, unlike what typically happens in bank lending (Carretta, 1995).
The ability to assign future receivables allows the factor to support the seller even before the sale takes place, also providing advice on potential market opportunities and on the reliability of individual counterparties. More generally, the long-term and often exclusive nature of the relationship between firm and factor allows the latter to develop in-depth knowledge of the client. This familiarity enables the factor to manage uncertainty more effectively and to tailor the financing instrument to the specific needs of the firm (Tagliavini et al., 2022).
Another key difference relative to invoice advances is the insurance component: in non-recourse factoring, the factor or bank bears the risk of debtor default, guaranteeing payment. This is particularly valuable in uncertain economic conditions or for firms wishing to transfer receivables definitively, removing them from the balance sheet. The operation lightens assets, improves net financial position (NFP), and strengthens the firm’s creditworthiness.
Credit risk assessment also takes on specific features in factoring. It is based on the joint evaluation of the assignor’s and debtor’s risk, as well as the quality of the commercial relationship. Since factoring relationships are generally long-term, the information gathered by the factor supports a more accurate overall risk assessment, reduces information asymmetries, and may be shared with the firm as an additional service (Tagliavini et al., 2022). Continuous monitoring of debtor payments enables early detection of potential uncollectible receivables and adjustment of the assignor’s credit limit.
Factoring therefore improves credit-risk management, not only in non-recourse but also in recourse arrangements. This is especially beneficial for SMEs, which often lack internal risk-management structures: the factor acts as an expert partner supporting the firm in monitoring customer portfolios. In Italy, credit quality in factoring is high (see the third part of this study), confirming the effectiveness of sector risk controls.
Trade receivables are also a highly liquid form of collateral: factoring belongs to the category of self-liquidating loans, since the financing is repaid automatically

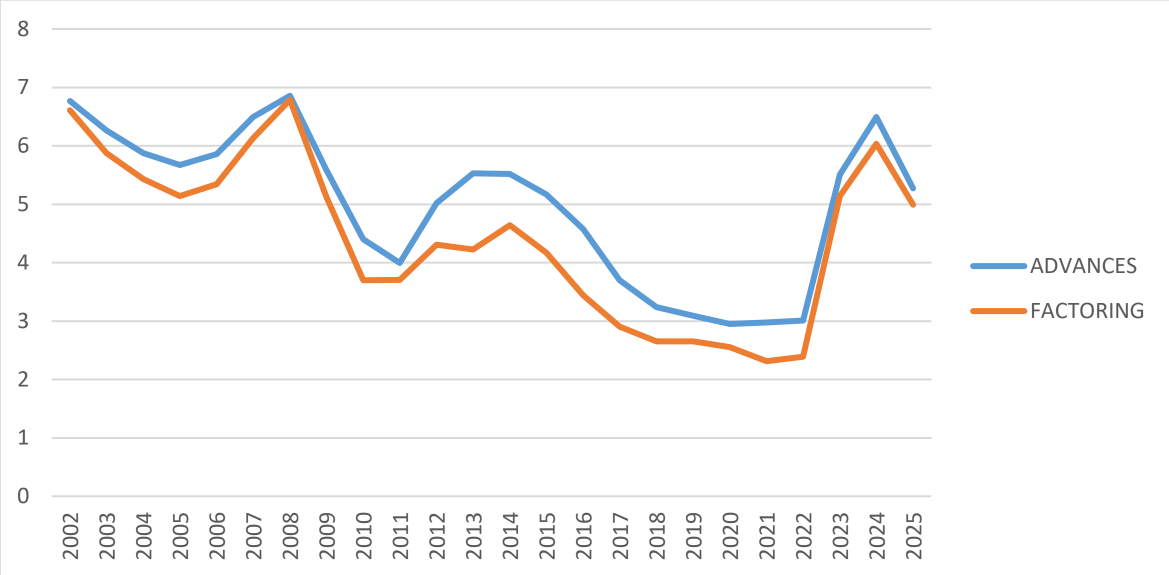
through the collection of the assigned receivables. Therefore, unlike traditional bank lending, which bases credit assessment on financial ratios and future cash flows, factoring places emphasis on the value of receivables and the solvency of debtors (Udell, 2004). Additional indicators include measures of dilution risk, i.e., reductions in receivable value due to factors unrelated to debtor solvency (returns, discounts, disputes, errors, etc.) (Galmarini & Tavecchia, 2015).

To mitigate these risks, the factor applies a safety margin, carefully setting the advance amount relative to the total value of assigned receivables. This margin reflects the debtor’s historical payment behaviour and portfolio diversification. Risk is further reduced when the assignment is notified to the debtor, who pays the factor directly, reducing potential opportunistic behaviour by the assignor (Galmarini & Tavecchia, 2015).

As for costs, factoring involves three components: the factoring fee, ancillary fees, and interest on advances. The factoring fee compensates the management (and, in non-recourse factoring, the guarantee) of the receivables. Ancillary fees cover administrative and processing activities. Interest represents the financial cost of the advance and is determined on market terms, considering client rating and receivable characteristics.

The comparison between average factoring rates and banking advance rates (Chart 1.3) shows a consistent and significant cost advantage in favour of factoring. This derives from the fact that, all else being equal, factoring presents lower credit risk than bank lending, since the assessment incorporates the risk of the debtor as an additional mitigating factor.

Chart 1.3 Comparison of average Global Effective Rates (TEGM) for bank advances and factoring, from 2002 to the first half of 2025.



Source: Author's elaboration of Global Effective Rates (TEGM), using data from the Bank of Italy

Given that factoring is a more complex and higher value-added service compared to traditional bank credit, due to the presence of management and guarantee components, the convenience of resorting to factoring must be assessed by comparing the administrative and financial costs associated with traditional credit with the fees and commissions charged under factoring arrangements. It should also be considered that factoring can generate cost savings for firms by outsourcing activities related to the evaluation, administration, and monitoring of trade receivables. By shifting these functions to the factor, firms convert fixed costs associated with internal credit management into variable costs (the factoring commission), particularly when factoring relationships are long-term and involve a substantial portion of the firm's sales.

Beyond reducing fixed structural costs, factoring also creates value by enhancing the quality and efficiency of credit management. When outsourced, these activities benefit from the factor's specialist expertise. Another important contribution concerns credit risk mitigation: the factor's monitoring, control, and recovery activities are generally carried out more efficiently and at lower cost, due to economies of scale in debtor information collection and the intermediary's industry-specific knowledge.

It is also essential to consider how the financial resources released through receivables financing are used. The liquidity obtained through factoring may be employed to repay existing debts, thus improving the firm's capital structure, or to finance sales growth and business expansion (Carretta, 1995). The use of factoring as a "growth financing" instrument highlights its advantages: it is more frequently adopted by younger firms with strong development prospects and by clients who report high levels of satisfaction with the service.

Recent data show that 64% of small enterprises recognize that factoring plays a decisive role in reducing the activities (and related costs) involved in managing trade receivables, thereby freeing internal resources that can be reallocated to higher value-added functions (Assifact and KPMG, 2023). In this way, firms gain operational efficiency and can concentrate on their core business, delegating credit management and collection to the factor.

Factoring also allows for faster collection of receivables than many alternative forms of financing. Once the relationship is established, the advance procedure is streamlined (often digitized), enabling the firm to receive funds within hours or a few days. This supports a highly responsive approach to working capital management. Moreover, when provided on a non-recourse basis, factoring guarantees the final collection of receivables, eliminating the uncertainty of future defaults. This increased certainty, in turn, improves financial planning and enables more secure investment decisions.

When evaluating the convenience of factoring, it is therefore important to consider the broad spectrum of benefits it generates across various areas of corporate activity linked to trade receivables management[6]:

- Accounting area: simplifies accounts receivable administration, converts fixed into variable costs, and reduces working capital on the balance sheet.
- Commercial area: may support higher sales volumes by accelerating the cash realization of receivables and releasing liquidity for reinvestment. Firms in rapid expansion may use factoring to sustain rising sales without straining cash reserves; firms entering new markets may do so with greater security thanks to credit risk coverage.

[6] https://www.assifact.it/il-factoring/faq/

- Financial area: accelerates the operating cycle by reducing the time between input purchasing and revenue collection, thereby decreasing overall financing needs.
- Organizational area: can prompt a reconfiguration of customer-related processes, enabling firms to concentrate resources on more strategic functions such as production, innovation, and sales.

Factoring is therefore advantageous when the benefits it generates (rapid liquidity, credit risk mitigation, and outsourcing efficiencies) exceed the cost of the service. This assessment must consider both internal and contextual factors, including the actual or potential presence of credit rationing, expected firm growth, the structure of the firm's liabilities, revenue stability, and the cost structure (Carretta, 1995). Table 1.5 provides a summary comparison between factoring and traditional bank credit, highlighting the differences and the key elements discussed above.

Table 1.5 Comparison between factoring and traditional bank credit

Item	Factoring (Transfer of trade receivables)	Traditional bank credit facilities (term loans and revolving credit lines)
Access to financing	Based primarily on the quality of the assigned receivables and the creditworthiness of the firm's debtors. It may be accessible even to companies with limited own credit standing, provided they have reliable customers. It is often more easily obtainable for SMEs that have a solid customer portfolio but a limited banking track record.	Based on the firm's own creditworthiness and the guarantees it is able to provide. The bank assesses financial statements, credit ratings, and collateral (e.g., assets, mortgages). Younger SMEs or those with limited tangible assets may face difficulties in accessing financing if they are unable to meet the required covenants.
Collateral requirements	In many cases, no additional collateral is required: the receivables assigned serve as the collateral. The factor mitigates risk through careful selection and insurance of receivables.	Generally requires collateral or guarantees (e.g., pledges on assets, mortgages, personal guarantees) or credit insurance. The availability of financing may be constrained by the firm's ability to provide sufficient guarantees.
Amount eligible for financing	The amount financed is proportional to the value of the trade receivables assigned. It is flexible and scalable: as turnover grows, the effective liquidity available increases in parallel (subject to debtor-specific and portfolio limits).	Typically granted on the basis of a predetermined credit line or loan limit. The amount does not automatically expand with sales growth: increases in the credit facility require renegotiation and new creditworthiness assessments.
Loan disbursement time	Once the factoring agreement is in place, the firm can obtain advances on invoices very quickly (sometimes within a few days from invoice issuance). Financing is	The initial credit assessment may take longer. While the credit line can be used flexibly, any request for additional funds or increased limits

Item	Factoring (Transfer of trade receivables)	Traditional bank credit facilities (term loans and revolving credit lines)
	continuous and rolling: each new receivable sold generates immediate liquidity.	requires formal approval processes. In situations requiring urgent liquidity, the firm is constrained by the credit line already available.
Costs	Factoring costs include interest on advances for the financing period and service fees for credit management activities (often expressed as a percentage of receivables purchased). The interest component is typically lower than that applied to comparable bank lending. Benefits should also account for the outsourced services (credit management, monitoring, insurance) and the internal cost savings.	Typically involves interest paid on the capital utilized (at a fixed or variable rate) and sometimes commitment fees. Costs do not include additional services: credit management and credit risk remain entirely with the firm.
Additional services	In addition to financing, factoring provides administrative management of receivables (accounting, reminding), debtor monitoring, legal recovery if necessary, assessment of new customers, and—under non-recourse arrangements—coverage against insolvency. The factor effectively acts as a partner in the firm's credit management.	Bank financing does not include receivables management services: the firm must handle invoice collection, follow-ups, and credit-risk evaluation internally. The bank provides funds but requires repayment independently of the firm's commercial cash inflows.
Impact on the balance sheet	If non-recourse and eligible for derecognition, the assigned receivables are removed from the balance sheet and the advance received is not recorded as financial debt (the transaction qualifies as a true sale). This can improve certain financial ratios and converts internal fixed costs into variable factoring fees. If recourse (or if derecognition requirements are not met), the advance is recorded as a financial liability (similar to a loan).	The debt contracted increases reported financial liabilities. Trade receivables remain on the asset side of the balance sheet. This may worsen leverage and short-term liquidity ratios, although it is the traditional way to finance working capital. No conversion of fixed into variable costs occurs: the firm continues to bear internal credit management costs.
Debtor Risk management capacity	High: the factor performs ex-ante assessment of assigned customers, provides guarantee/insurance under non-recourse arrangements, and benefits from specialized expertise in monitoring and recovery. As a result, the insolvency rate on factoring portfolios is generally very low.	Limited: the bank does not manage the underlying trade receivables. Credit risk remains with the firm; if a customer defaults, the impact affects the company first, potentially hindering its ability to repay the loan. Banks generally do not cover such risks except by requiring additional guarantees or external credit insurance at the firm's expense.
Contractual flexibility	High flexibility and customization: the contract can cover all receivables or selected debtors; notification can be with or without disclosure; advance rates can be tailored, etc. The instrument can be structured to combine financing with administrative and credit-risk services.	Typically standardized (e.g., overdraft, invoice advance, term loan) with conditions defined mainly by the bank. Lower capacity for customization in operational terms: the firm chooses how much of the facility to use, but rules and collateral

Item	Factoring (Transfer of trade receivables)	Traditional bank credit facilities (term loans and revolving credit lines)
		requirements are generally fixed and uniform across clients.

1.7 Macroeconomic and industrial benefits of factoring

Factoring serves as a genuine driver of competitiveness, particularly for small and medium-sized enterprises. It enables firms to outsource the management of trade receivables, to navigate periods of credit rationing, to optimize their cost of funding, and to reduce the effects of informational asymmetries. It also facilitates access to international markets and supports business continuity during periods of crisis. In doing so, factoring generates structural benefits not only for the individual firm but for the broader economy as a whole.

The development of factoring generates important benefits for the economic system. Several studies (including Klapper, 2006) attribute these benefits to the ability of factoring to facilitate access to credit for small and medium-sized enterprises (SMEs), thereby improving firms' resilience and stimulating growth, particularly in contexts characterized by institutional fragility or an insufficient supply of bank credit. Indeed, the need to resort to factoring is greater among small and medium-sized firms and among companies in expansion phases. The motivations behind the use of factoring, both those of an operational/managerial nature (previously referred to as "real" motivations) and those of a financial nature, tend to be more pronounced in the case of SMEs.

From a managerial perspective, factoring constitutes an outsourcing solution for the management, collection, and recovery of trade receivables. According to Smith and Schnucker (1994), the decision to adopt factoring also depends on firm size and organizational structure. Larger firms that serve a substantial number of credit customers may prefer to manage receivable risk internally, exploiting economies of scale that make in-house administration more efficient than outsourcing.

Conversely, SMEs tend to lack the organizational structures and specialized capabilities required to manage the full receivables cycle effectively.
From a financial perspective, SMEs turn to factoring partly because they face greater obstacles in accessing bank financing (Soufani, 2002; Klapper, 2006; Bussoli and Marino, 2018). Summers and Wilson (2003) link these difficulties to several risk-related factors: payment delays by customers, which intensify liquidity constraints; banks' reluctance to lend to SMEs, especially those in growth phases, due to challenges in assessing risk and pricing it appropriately (leading to credit rationing); limited availability of collateral; and higher incidence of impaired loans among SMEs. These authors emphasize that the literature (e.g., Stiglitz and Weiss, 1981) supports the idea that credit rationing may arise even in equilibrium, and that weak collateral positions or a limited banking track record can exacerbate these problems.
Recent evidence suggests that these conditions have not substantially changed. The most recent SAFE (Survey on the Access to Finance of Enterprises) conducted by the European Central Bank[7] shows that SMEs continue to face less favorable interest rate conditions: while large firms reported a significant decline in lending rates (net balance of –31%), SMEs reported a slight increase (net balance of +2%), indicating tighter overall financing conditions. Both large firms and SMEs reported a further tightening of lending standards, though the effect is more pronounced for SMEs, which also face stricter collateral requirements and higher ancillary costs. SMEs are also more pessimistic regarding future access to external finance and perceive more strongly the impact of negative macroeconomic conditions. Due to their smaller size and weaker bargaining power, SMEs structurally have less capacity to negotiate favorable terms, making them more vulnerable to shifts in bank lending policies, especially those associated with the implementation of the Basel III framework.
The literature documents a substantial and growing use of factoring by SMEs over time. Because factoring does not require tangible collateral beyond the assigned receivables, it is particularly advantageous for SMEs in expansion that lack sufficient assets to secure traditional bank loans. Factoring also appears suitable

[7] https://www.ecb.europa.eu/stats/ecb_surveys/safe/html/ecb.safe202504~3839a2deca.en.html

for firms with lower credit ratings, often correlated with low equity levels (Bouras and Boudah, 2002). Klapper (2006) further shows that factoring can effectively finance high-risk or opaque sellers, since risk assessment is based primarily on the quality of the receivables rather than on the seller's own creditworthiness. According to Bakker et al. (2004), difficulties in SME access to credit are deeply tied to information asymmetries and the ability of financial intermediaries to overcome them. The less transparent a firm is, the more difficult it becomes to secure external finance. Heavy reliance on internal funds, such as shareholders' capital, suggests that access to external credit is constrained, and that investment decisions become dependent on cash flow rather than on growth opportunities. Factoring is also particularly valuable for financing receivables due from large or foreign buyers, especially when these buyers have stronger credit standing than the seller. For SMEs pursuing internationalization strategies, entering foreign markets often entails significant working capital requirements and heightened credit risk. International and reverse factoring solutions make it possible for SMEs to participate in global value chains by providing liquidity and protection against default by foreign buyers. Auboin et al. (2016), using data from Factors Chain International (FCI), find that the availability of factoring services in a country has a significant positive effect on SME participation in international trade. In Europe, where supply chains are highly integrated, factoring, particularly non-recourse factoring with export credit protection, enables firms to compete globally by ensuring timely collection, mitigating credit and currency risks, and simplifying administrative management. In Italy, international factoring accounted for 25.3% of total turnover in 2024, up from 8.9% in 2009[8].

An equally important role of factoring emerges in situations of corporate restructuring or financial distress. When a firm undergoes stress or a turnaround, access to bank credit becomes severely restricted. In such circumstances, factoring can be decisive: even a distressed firm can obtain substantial financing if it has receivables from reliable counterparties (e.g., large firms or public administrations). Molina and Preve (2009) show that factoring becomes a key liquidity management tool in crises, providing immediate cash and supporting

[8] Assifact, 2025

recovery at competitive cost. Mian and Smith (1992) note that firms with lower credit ratings rely more heavily on factoring as their credit quality deteriorates, emphasizing the importance of speed and flexibility. Once established, a factoring arrangement can make liquidity available within 24–48 hours, enabling continuity in supplier payments and payroll, preserving supply chain relationships, and preventing operational disruption. For this reason, factoring often becomes a strategic component of turnaround plans.

Banks themselves frequently encourage or require factoring when a borrower enters distress, as the provision of regular cash inflows reassures creditors and facilitates debt renegotiation. According to Assifact and Deloitte (2024), the Italian market alone includes an estimated €40 billion of potentially factorable receivables from distressed firms.

In a broader macroeconomic perspective, Fiordelisi (2011) analyzes the contribution of factoring to economic development across three dimensions: direct (immediate effects on employees, the State, shareholders, creditors, and client firms), indirect (effects generated by spending and investment of stakeholders), and dynamic (the value added that would be lost in the absence of factoring). The study, conducted in Italy, France, and the United Kingdom during 2005–2009, shows that factoring provides a stable contribution even in adverse macroeconomic conditions. For Italy, the specific contribution over the five-year period was estimated at €22.1 billion in consumption, €3.9 billion in savings, €81.1 billion in investment, and €24.3 billion in tax revenues.

A quantitative estimate of the value of factoring for firms and for the economic system can also be derived from the data presented in Table 1.6, which summarises the impact of factoring on the main economic and financial variables, distinguishing, where possible, the benefits for SMEs and for other types of firms.

Table 1.6 The impact of factoring on firms' financial management

Impact Profile	Effect of Factoring	Rationale (Assifact data for 2024 unless otherwise indicated)	Type of Firm Most Affected
Access to credit	↑ Access ↑ Continuity	€59 billion in advances granted in 2024; factoring	SMEs

Impact Profile	Effect of Factoring	Rationale (Assifact data for 2024 unless otherwise indicated)	Type of Firm Most Affected
		= 40% of bank short-term lending	
Liquidity and collection times	↓ DSO	Average collection time of factored receivables: 89 days[9] (82 days B2B and 123 days PA as of June 2025[10])	SMEs and sectors with long operating cycles
Risk Management	↓ Insolvencies ↑ Predictability	81% of turnover under non-recourse (risk absorption); very high credit quality (98% performing)	PMI; suppliers of public administrations
Supply-chain resilience	↑ Payment continuity	Key role in PA-related sectors (€21 billion turnover) with average payment times of 123 days	PA-intensive sectors
Firm competitiveness	↑ Working-capital efficiency	Reduction of working-capital needs; outsourced credit management; pricing based on debtor quality	SMEs
Export and internationalisation	Security and bankability	Strong presence in international supply chains; reduced foreign-counterparty risk	Export-oriented corporates and SMEs
Economic system	↑ Stability ↑ Liquidity circulation	Turnover = 289 mld (13% GDP)	Entire system

The value generated by factoring manifests itself on several, often interdependent, levels. On the one hand, it significantly increases firms' access to credit, especially for small and medium-sized enterprises: in 2024, advances and payments made by factors reached €59 billion, an amount that alone represents over 40% of bank short-term lending to Italian firms. This means, in practice, that a substantial share of corporate working-capital needs no longer flows, or no longer exclusively flows,

[9] The calculation of the average collection period is based on the annualised ratio between the outstanding amount as of 31 December 2024 and the turnover recorded in 2024.
[10] At the end of 2024, they were 81 and 131 days respectively.

through the traditional banking system, but is instead supported by a mechanism that is flexible, fast and closely linked to the real flow of commercial transactions.
At the same time, factoring has a decisive impact on collection times and, consequently, on liquidity cycles. In a context where trade credit in Italy continues to be characterised by long payment terms (almost 82 days between private firms and over 123 days for the Public Administration), the assignment of receivables enables firms to transform into immediate liquidity what would otherwise remain tied up for weeks or months. With average collection times for factored receivables around 89 days, factoring plays a concrete role in shortening the financial cycle, reducing uncertainty, stabilising cash flows, and improving planning capacity.
Equally important is the risk dimension. In 2024, 81% of turnover consisted of non-recourse transactions, implying that the factor assumes the debtor’s payment risk. This transfer of risk, supported by stringent credit management and monitoring practices, results in a substantial reduction in the financial and operational exposure of the client firm. In a phase in which the deterioration rates of bank credit have begun to rise again, factoring stands out for its exceptionally high asset quality: in 2024, nearly 98% of receivables were performing. This reflects both the sector’s strong capabilities in credit selection and management, and the intrinsically more resilient nature of the business model.
The positive effects of factoring, however, extend well beyond the relationship between the factor and the client firm. They propagate along the entire production chain, contributing to the stability of commercial relationships and to the health of the economic fabric. Factoring towards the Public Administration (with over €20 billion in turnover in 2024) continues to play a critical role for many suppliers of public goods and services, particularly in the healthcare sector and in areas where payment delays remain structural. In these contexts, the role of factoring is not only financial but also strategic: it enables firms to continue operating in an environment where certainty of payment timing is still far from guaranteed.
Internationalisation deserves separate attention, and 2024 provided particularly striking evidence in this regard. International factoring reached nearly €73 billion, 25.2% of the total market, growing by 13.79% in a single year, at a pace nearly three times faster than domestic operations. These figures show that, for many

Italian firms, factoring is now a strategic lever for operating in foreign markets characterised by higher credit risk, longer collection times and administrative complexity. The ability to transfer foreign buyers' risk, stabilise liquidity, and obtain immediate financing makes factoring a genuine enabler of exports, especially for SMEs. It is no coincidence that, at European level, exporting firms are among the most intensive users of the instrument, more than innovative or high-growth firms themselves. This confirms that international competitiveness increasingly depends on the ability to manage working capital on a global scale.

In this perspective, it is useful to go beyond the description of benefits and to attempt to estimate, at least in an indicative way, what would happen if factoring, hypothetically, did not exist.

Starting from the fact that total turnover in 2024 approached €289 billion, while outstanding factored receivables amounted to about €70.65 billion (corresponding to an average duration of approximately 89 days, or just over four annual cycles), and assuming an average advance rate of about 70% of the receivable's value[11], it follows that factoring enables the generation of more than €200 billion of liquidity per year[12].

It is highly unlikely that the banking system could replace these volumes entirely with alternative financial products: even assuming an absorption capacity of 40–50% of the advances currently provided, there would still remain €20-30 billion of unmet liquidity needs. Added to this would be the immediate effect of longer collection times, generating an increase in firms' working-capital requirements estimated at around €40 billion. Considering an average receivable duration of 89 days, the disappearance of factoring would immediately lengthen firms' collection cycle[13], resulting in an increase in working capital calculated as follows:

$$\Delta CCN = Turnover \times \frac{\Delta DSO}{365}$$

[11] The 70% figure is the average for the period 2019–2024 derived from the Ossfin sample, as reported in Table 1.1. It is lower than the specific 2024 value shown in the Assifact Report (Assifact 2025) and is used in the calculation for prudential purposes.

[12] The estimate of annual disbursements is obtained by combining outstanding volumes, average advance rates, and the duration of assigned receivables. Assuming an average receivable maturity of 89 days (equivalent to 4.1 cycles per year), the volume effectively financed by factoring in the real economy can be approximated as follows: 70.65 billion × 0.7 × 4.1 ≈ €203 billion of liquidity disbursed over the year.

[13] Without factoring, firms would collect their receivables 89 days later instead of immediately.

Applying the standard working-capital formula to the portion of turnover realistically not replaceable by bank credit, about 50-60% of total turnover, or €140-170 billion, the increase in net working capital would amount to €35-42 billion, as shown below:

$$€140\ bn - €170\ bn\ \times \frac{89}{365} \approx €35\ bn - €42\ bn$$

This would generate a significant negative impact, especially for SMEs and for sectors characterised by long collection cycles, with repercussions on production levels, investments, and the stability of supply chains.

The disappearance of the non-recourse component would also shift the entire risk of debtor insolvency back onto the client firms, precisely at a time when credit deterioration rates are rising again. The consequences could be severe: liquidity tensions, an increase in commercial insolvencies, domino effects along supply chains, and a more general erosion of trust among economic actors.

In such a scenario, the impact would not be limited to a drastic reduction in available liquidity; it would also undermine the productive system’s ability to sustain current levels of economic activity.

To fully capture the potential impact of the disappearance of factoring, it is therefore useful not only to estimate the financing gap that would open up, but also to assess which share of the value added currently generated by firms depends directly on the working-capital financing ensured by the sector.

At this point, it becomes possible to develop a further analysis aimed at quantifying, in macroeconomic terms, the contribution of factoring to the creation of value in the Italian economy.

To estimate the value added effectively “enabled” by factoring, two operational assumptions are required. First, that net working capital is a binding constraint for firms: in the absence of factoring, the additional €35-42 billion net working capital would not be fully replaceable through bank credit or internal resources. Second, that the turnover currently supported by factoring is a reasonable proxy for the value of production made possible by working-capital financing.

On the basis of these assumptions, it becomes possible to link the loss of financing to the portion of value added that would no longer be generated.

According to ISTAT data for 2024, total production amounts to €4,296 billion, intermediate consumption to €2,330 billion, and value added (GDP) to €1,966 billion. On average, therefore, 45.76% of production translates into value added. Applying this coefficient to the share of turnover that would no longer be sustainable in the absence of factoring, estimated at €140–170 billion, yields a loss of value added between €64 and €78 billion (Table 1.7).

In relative terms, this corresponds to approximately 3-4% of Italian GDP, demonstrating the direct and exclusive contribution of factoring to the functioning of the real economy.

Table 1.7 An estimate of the value added enabled by factoring

Data (€ bn)	**min**	**max**
Estimated turnover no longer sustainable without factoring	140	170
Value added enabled by factoring	64	78
Value added enabled by factoring as a percentage of GDP	3%	4%

Altogether, the financial, operational and systemic effects described above show that the value of factoring extends well beyond its traditional role as a working-capital financing tool. It represents an important source of efficiency capable of reducing financial costs, stabilising commercial relationships, supporting firms' competitiveness, especially that of SMEs and exporting companies, and contributing to the resilience of the entire productive system.

1.8 Conclusions

Factoring is a structured and sophisticated financial product that performs multiple functions in support of trade receivables management, which is a core component of corporate operations. While trade credit is essential for sustaining supply chain relationships, it can also generate significant costs and vulnerabilities, particularly for SMEs that lack specialized internal resources. In this context, outsourcing receivables management through solutions such as factoring allows firms to transform a potential constraint into an opportunity, easing administrative burdens and reducing financial risk.

Factoring thus represents a strategic lever for the competitiveness of both the productive and financial systems, uniquely combining financing, credit management, and risk mitigation. The market for factoring is well developed, with a supply structure that reflects the distinctive diversity of the Italian financial system and underscores the importance of dedicated capabilities and expertise. Its diffusion is not driven solely by firms' liquidity needs but also by the value it provides in terms of organizational efficiency, financial resilience, and support to growth, internationalization, and restructuring processes. Demand for factoring therefore reflects appreciation of all its underlying functions, which respond to the heterogeneous needs of different types of firms.

The evidence shows that factoring constitutes a financial infrastructure capable of reducing informational asymmetries across the supply chain, stabilizing cash flows, and strengthening firms' investment capacity, especially among SMEs. In this regard, factoring should not be viewed as a residual or emergency instrument, but as a structural solution for managing working capital, complementary to traditional bank credit. The comparison with banking highlights the distinctive features of factoring and clarifies its convenience, which reinforces the benefits it generates for SMEs and for the economy as a whole: Factoring generates more than €200 billion in liquidity each year and translates into a tangible macroeconomic contribution, estimated at around 3-4% of GDP, thus confirming its structural role in supporting the competitiveness and resilience of the Italian economy.

Part Two. The regulation of factoring: an enabling factor or a distortion in market development? (Filippo Annunziata and Thomaz Braga de Arruda)

2.1 Context: the widespread call for simplification of EU financial regulation

Within the European Union, simplification has become a central political priority of the European Commission (2024–2029), related to the objectives of the Savings and Investments Union (SIU). At an institutional level, the urgency of such an agenda has been highlighted by different political actors, in particular the Letta Report (2024), the Draghi Report (2024), and the Commission Communication *A Simpler and Faster Europe* (2025).

The Letta Report (2024) identified the excessive complexity of the European regulatory *acquis* as one of the main barriers to the development and integration of the Single Market. The report stresses the importance of a comprehensive simplification of the regulatory framework, arguing that greater clarity and consistency are essential conditions for strengthening the Single Market and yielding its benefits. Also in the same vein, the Draghi Report (2024) compares the regulatory burdens in the EU and the United States to underscore the lack of a unified methodology for assessing the costs and benefits of EU regulation, a gap that has contributed to complexity and over-regulation in the financial domain. In addition, there is a clear indication of the disproportionate burden placed on small and medium-sized enterprises (SMEs). The report therefore proposes different measures, inter alia, the appointment of a Vice-President for Simplification; the adoption of a unified ex ante methodology for future legislation; and the codification and consolidation of rules. Special attention is devoted to reducing reporting obligations and, as a result, compliance costs, with the aim of strengthening SME competitiveness.

The Communication *A Simpler and Faster Europe* (2025) formalizes these orientations. Simplification is presented as a key driver of competitiveness, and a concrete operational target is set: a 25% reduction in administrative burdens, corresponding to estimated savings of €37.5 billion for businesses. The

Commission identifies two main lines of action: (i) applying stress tests and “reality checks” to existing legislation; and (ii) strengthening competitiveness assessments and impact checks for new legislative acts. Concrete initiatives, such as the VI Omnibus packages and revisions to the Securitisation Framework and the Sustainable Finance Disclosure Regulation (SFDR), are introduced as preliminary initiatives in this direction.

Calls for simplification have also come from the Eurosystem.), as the governors of the central banks of France, Spain, Italy, and Germany (Escrivà et al., 2025) issued a joint letter to the Commission calling for simpler banking rules, while clarifying that simplification does not mean deregulation. Both the ECB and the EBA have reiterated the need for evidence-based reform capable of maintaining supervisory resilience while avoiding increased complexity. In 2025, the ECB established a High-Level Task Force on Simplification, chaired by the ECB Vice-President and composed of several euro area central bank governors and a representative of the ECB Supervisory Board[14]. Its mandate is to formulate proposals to simplify prudential, supervisory, and reporting requirements applicable to the European banking sector, while preserving financial resilience and sound solvency standards. Priority areas include streamlining existing rules, particularly the implementation of Basel III, and reducing overlaps and inefficiencies in supervisory controls and reporting obligations (EBA, 2025a). The Task Force is expected to deliver proposals to the ECB Governing Council by the end of 2025, with potential subsequent contributions to the Commission. Similarly, the EBA has started a public consultation aimed at simplifying its rules on resolution planning and resolution colleges.

National authorities have also contributed to this agenda. In a 2025 report (Cannata & Serafini, 2025), the Bank of Italy proposed pragmatic approaches to simplify European prudential regulation. Priorities include rationalizing the EBA’s mandates under CRR III and CRD VI, reviewing the Fundamental Review of the Trading Book, reassessing due diligence requirements for securitisation, and reflecting on the EU’s legislative approach to capital requirements.

[14] The Vice-President of the ECB, the Governor of the Banque de France, the President of the Deutsche Bundesbank, the Governor of the Bank of Italy, the Vice-President of the European Systemic Risk Board, and a Member of the ECB Supervisory Board. Patrice Montagner, “Interview with *Revue Banque*” (7 May 2025).

Further discussion has been informed by a briefing prepared by the European Parliament’s Economic Governance and EMU Oversight Unit (EGOV), *Simplification, not deregulation? Unpacking the debate on simplification and regulatory burden for European banks* (Mazzocchi & Spitzer, 2025), which provides important insights on prudential regulation and ECB supervisory practices.

Stakeholder contributions have also played a prominent role in shaping the debate. Two interventions merit particular attention: the *Less is More Report* (AEDBF, 2025) and the *Simply Competitive Report* (European Banking Federation, 2025). Such documents contain comprehensive analyses of the current European financial regulatory framework and propose concrete avenues for reforming and enhancing the legislation.

In particular, the *Less is More Report* offers a systematic analysis of the increasing complexity of EU financial law. The sources of this phenomenon are identified, on the one hand, in the inflation of legal texts and, on the other, in the progressive transfer of regulatory authority from the co-legislators to EU institutions and agencies. This has produced forms of over-regulation, particularly visible in emerging areas such as digital and sustainable finance. In addition to critical analysis, the report proposes a reform toolbox, including: (i) a clearer distinction between supervisory and regulatory functions; (ii) stronger stakeholder involvement in decision-making processes; and (iii) more rigorous scrutiny of delegated acts and soft law instruments.

As the institutional representation of European banking interests, the EBF, through the *Simply Competitive Report*, has put forward proposals to improve regulatory coherence and efficiency. The report is structured across seven thematic areas, covering primary and secondary legislation, supervisory practices, and national gold-plating. The approach underscores the need to rationalize compliance obligations, reduce duplication in reporting, and promote alignment in supervisory expectations across EU jurisdictions.

The following paragraphs will first summarize the main systemic issues identified in these reports and recent institutional initiatives; second, they will highlight how these issues are manifested specifically and in a particularly significant way in the legal and prudential treatment of factoring.

2.2 The Lamfalussy process

The European Union’s regulatory framework for financial services, which encompasses the banking sector, financial markets and investment services, as well as insurance, operates within a complex institutional architecture involving the European Commission, the Council, and the European Parliament, alongside the European Supervisory Authorities (ESAs), the European Central Bank (ECB), and the Single Resolution Board (SRB).

The Lamfalussy process, introduced with the 2001 report, has provided the reference framework for this multi-level regulatory production. It was designed with a dual objective: on the one hand, to facilitate the integration of the European market for financial services and capital; and on the other, to overcome the slowness of the EU decision-making process, which was perceived as less responsive than the U.S. regulatory model, considered more agile in adapting to technical innovation and shifts in global financial flows.

The 2008 financial crisis profoundly reshaped this architecture. Following the recommendations of the de Larosière Report, national regulatory committees were replaced with European authorities equipped with effective powers, leading to the establishment of a European System of Financial Supervision. The adoption of the founding regulations of the ESAs marked this transition, which strengthened coordination capacity and institutional credibility, but also produced a significant side effect: the emergence of an increasingly complex body of rules, layered across EU legislation, national sources, and measures adopted by the ESAs.

The Lamfalussy model is structured into three levels, reflecting a logic of progressive technicalisation of the regulatory process:

- Level 1: Directives and regulations adopted by the European Parliament and the Council (Article 289 TFEU);
- Level 2: Delegated acts and Regulatory Technical Standards (RTS) pursuant to Article 290 TFEU and Article 10 of the ESA Regulations, as well

as implementing acts and Implementing Technical Standards (ITS) pursuant to Article 291 TFEU and Article 15 of the ESA Regulations;
- Level 3: Soft law instruments, guidelines, recommendations, Q&A, and opinions, adopted by EBA, ESMA, and EIOPA under Articles 16, 16a, 16b, 29, and 31 of their respective founding regulations.

Originally conceived as a mechanism for flexibility and speed, the Lamfalussy process has evolved into a system that tends to multiply regulatory centres and stratify sources, contributing to the regulatory complexity that recent European simplification initiatives now seek to address. It is important to emphasize, however, that these criticalities do not derive from the model itself, but from its practical implementation. The multi-level structure has not been respected in accordance with its original logic: the intended sequencing has gradually been replaced by the simultaneous production of regulation at all levels.

As a result:
- Level 1 has increasingly incorporated micro-rules and detailed annexes;
- Level 2 has become the site of hyper-production of granular norms;
- Level 3 has come to compensate for the absence of binding standards with quasi-operative prescriptions, often treated in practice as benchmarks for authorization and supervisory assessment.

This has generated a shift in the hierarchy of norms, with the consequence that, despite the growing accumulation of regulatory texts and guidelines, key definitions and concepts remain vague or undefined, cross-sector inconsistencies proliferate, and legal uncertainty becomes a structural feature of European financial law.

2.3 The proliferation of mandates assigned to the European Commission and the ESAs

The intervention of the Commission at Level 2, although formally exercisable autonomously, relies to a significant extent on the technical input of the European Supervisory Authorities (ESAs): the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA), and the European Insurance and Occupational Pensions Authority (EIOPA). Established by the regulations of

24 November 2010, the ESAs implemented one of the key recommendations of the 2009 de Larosière Report, marking the shift from cooperation among national committees to a genuine European system of financial supervision.
This evolution, while strengthening the technical capacity of the regulatory process, has resulted in a gradual transfer of normative powers from the EU co-legislators to the Commission and, ultimately, to the ESAs—institutions that do not possess direct democratic legitimacy. This shift raises questions regarding inter-institutional balance, respect for the democratic principle, and, more broadly, the rule of law. Such concerns are compounded by limited transparency mechanisms, insufficient stakeholder consultation, and the absence of robust parliamentary scrutiny over the acts adopted.
These dynamics have resulted in a well-established trend toward regulatory inflation. Between 2019 and 2024, 431 legislative proposals were issued, compared with 374 in the period 1999–2004, while the average length of legislative texts almost doubled: approximately 8,600 words for acts adopted under the "von der Leyen I" Commission, compared with around 4,500 under previous Commissions[15]. Not only have the regulatory areas expanded, but the level of detail in the provisions has also increased: Level 1 texts are frequently adopted through accelerated procedures that bypass the second reading and, in order to reach rapid political compromises, are often drafted in imprecise or ambiguous terms. As a result, substantive issues that would require political decision-making are delegated to the Commission and the ESAs, through Level 2 acts that are increasingly less technical and more normative in nature.
The effect is twofold. On the one hand, the ESAs, although formally lacking independent rule-making authority, become, in practice, the principal authors of European standards: drafts of RTS and ITS prepared by the ESAs are adopted by the Commission almost always without substantial modifications. On the other hand, political oversight remains limited, as the Parliament and the Council make only marginal use of their power to object to delegated acts. The outcome is a technical-institutional circuit in which regulatory production is concentrated within a

[15] Cfr. AEDBF (2025), *Less is More,* page 31.

sphere that is distant from the ordinary legislative process, thereby widening the gap between formal lawmaking and democratic accountability.

The legal framework of the Treaties reflects this tension. Article 290 TFEU allows the Commission to adopt non-legislative acts to supplement or amend non-essential elements of primary legislation, on the basis of drafts prepared by the ESAs.

According to the case law of the Court of Justice[16], however, essential elements, namely those involving political choices or significantly affecting fundamental rights, remain within the exclusive competence of the legislator. Consistent with this, the founding regulations of the ESAs reiterate that RTS must be purely technical in nature and may not entail strategic or policy decisions. Similarly, Article 291 TFEU entrusts the Commission with the adoption of implementing acts to ensure the uniform application of legislation, based on drafts of ITS prepared by the ESAs. Here too, the Court has clarified that the function of such acts is limited to the technical details necessary for implementation and cannot extend to matters of principle[17].

2.4 Soft law as a source of legal uncertainty

Completing the picture are Level 3 acts, which constitute the most extensive and pervasive dimension of European soft law. Although guidelines, Q&A, and opinions are formally non-binding, they exert a decisive influence on the interpretation and application of EU law within national legal systems. Their stated purpose is twofold: to ensure the uniform application of Level 1 and Level 2 acts and to promote the convergence of supervisory practices among national authorities. In practice, however, their proliferation contributes to regulatory stratification and increases compliance layers: indeed, Level 1 texts increasingly assign tasks to the European Authorities, which are called upon not only to draft

[16] CJEU, 5 September 2012, Case C-355/10, ECLI:EU:C:2012:516, para. 66; CJEU, 22 June 2016, *DK Recycling und Roheisen GmbH v Commission*, Case C-540/14 P, para. 47; CJEU, 11 May 2017, *Dyson v Commission*, Case C-44/16 P. See also: CJEU, 17 March 2016, *Parliament v Council*, Case C-286/14, ECLI:EU:C:2016:183, para. 41.

[17] GC, 22 March 2023, *Tazzetti v Commission*, Joined Cases T-825/19 and T-826/19, ECLI:EU:T:2023:148, paras 154–161, 165–166, 184–207, 210–211. GC, 29 May 2024, *Hypo Vorarlberg Bank AG v SRB*, Case T-395/22, ECLI:EU:T:2024:333, paras 21–88.

technical standards but also to develop guidelines on essential aspects of regulatory frameworks.

Since the establishment of the ESAs, and even more clearly following the 2019 reform, their founding regulations have enabled the adoption of soft law instruments intended to harmonize supervisory practices and ensure a coherent application of EU law. The result is a fragmented and hypertrophic landscape, characterised by a multiplicity of texts with uncertain legal scope: in some cases lacking an explicit legal basis, in others even potentially diverging from the legislative intent of the underlying acts.

Guidelines represent the clearest expression of this tension. They are addressed both to national competent authorities and to supervised financial institutions, and may be adopted in two ways: pursuant to an explicit mandate in a Level 1 act, or, more frequently, on the autonomous initiative of the ESAs under Article 16 of their founding regulations. In the latter case, the declared objective is to ensure “consistent, efficient and effective supervisory practices” and to guarantee the “uniform and consistent application of Union law.” The effect, however, has been a progressive expansion of the ESAs’ scope of intervention, leading them to exert normative influence far beyond the technical limits that Level 3 instruments were originally intended to observe[18].

Pursuant to Article 16 of the ESA Regulations, national authorities and supervised entities are required to “make every effort” to comply with guidelines. While national authorities may depart from them, in whole or in part, through the *comply-or-explain* mechanism, practice reveals several critical issues. On the one hand, the ESAs do not systematically publish the explanations provided by national competent authorities (NCAs) to justify non-compliance, and the degree of transparency is lower than in the past (for example, the “regulatory compliance” section in the EBA’s annual reports was discontinued in 2019). On the other hand, compliance notifications are not always easily accessible nor do they consistently provide clear explanations of the reasons for divergence. This fuels risks of

[18] CJEU, 13 December 1989, *Grimaldi*, Case C-322/88, para. 18; CJEU, 15 September 2016, *Koninklijke KPN and Others*, Case C-28/15, para. 41; CJEU, 25 March 2021, *Balgarska Narodna Banka*, Case C-501/18, para. 80. With regard to guidelines, see also: CJEU, 15 July 2021, para. 71.

regulatory asymmetry and undermines the level playing field among Member States.

As for financial intermediaries, although they are formally free to deviate from the guidelines provided that they can explain their position and demonstrate equivalent safeguards in supervisory dialogue, practice shows that there is considerable pressure to conform. In reality, intermediaries tend to adopt the guidelines as though they were binding, in order to avoid friction with supervisory authorities. In this sense, although soft law lacks formal binding force, it nevertheless generates indirect legal effects: it may be incorporated into national law or internal binding procedures, and supervisory authorities may in practice require compliance.

The resulting attenuated binding effect raises significant concerns in terms of legal certainty and, in particular, judicial review. Because these acts do not formally produce binding legal effects, they cannot be challenged before the Court of Justice under Article 263(4) TFEU. The Court has repeatedly held that only acts capable of producing binding legal effects on third parties are open to annulment proceedings. This results in an increasing number of instruments that are formally non-binding but practically mandatory, and yet remain outside the scope of full judicial scrutiny at EU level.

Consequently, an operator that believes itself harmed may contest the legality of guidelines only through two channels: a request for a preliminary ruling under Article 267 TFEU, or a plea of illegality under Article 277 TFEU, raised in the context of proceedings concerning an EU or national act that is based on the soft law measure[19]. When a EU soft law measure is embedded within national regulation, any legal challenge must necessarily be directed against the latter: it is then for the national court hearing the request for annulment to determine whether to refer the question to the Court of Justice. This presupposes, however, the existence of a national measure capable of being challenged, an element that is not always present, particularly where implementation takes place through instruments lacking formal legal effect.

[19] See the CJEU research note entitled *Admissibility of actions against "soft law" acts*, published in June 2017.

In addition, the preliminary reference procedure depends on the discretion of the national court. Although a court is required to refer a question to the Court of Justice where doubts arise regarding the validity of an EU act, it may decline to do so if it considers the provision to be clear, previously interpreted, or not reasonably open to doubt (Article 267(3) TFEU). In principle, courts of last instance are bound by an obligation to refer, but the case law recognises exceptions based on the criteria of irrelevance, *acte clair*, or *acte éclairé*.

In theory, the illegality of a soft law instrument may also be raised by way of a plea of illegality under Article 277 TFEU. This, however, requires demonstrating that the contested act is based on an instrument lacking binding legal effect, an uncommon scenario, since supervisory authorities typically ground their decisions in Level 1 or Level 2 acts. Even where this hurdle is overcome, the case law of the Court does not guarantee thorough judicial scrutiny.

In this context, the *Meroni* principle [20], according to which delegations of power must be expressly conferred and strictly delineated, would justify particularly rigorous scrutiny of instruments lacking binding legal force. Recent case law, however, reflects a less stringent approach. In *FBF v ACPR*, concerning the validity of the EBA Guidelines on the governance of retail banking products, the Court adopted an expansive reading of the EBA's competences: it held that the guidelines were "necessary to ensure the coherent and effective application" of the binding rules of reference, even where these concerned aspects of corporate governance rather than product governance. The Court also affirmed that EBA's founding regulation does not exclude the adoption of guidelines relating to the design and distribution of retail banking products, provided that they fall within the Authority's remit. The result is a lowering of the threshold of judicial scrutiny compared to the level of rigour that the principle of institutional balance would require. It is therefore unsurprising that, following this judgment, the French *Conseil d'État* also adopted a broad interpretation of the EBA's competences and powers. It is precisely within this intermediate space that soft law begins to take on the character of "hard law."

[20] CJEU, 13 June 1958, *Meroni & Co. v High Authority of the European Coal and Steel Community*, Case 9/56.

A systemic contradiction thus emerges. Guidelines, conceived as non-binding interpretative instruments, come to produce practical effects that approximate substantive binding force, while not being subject to the same guarantees of legality, transparency, and democratic oversight that apply to binding regulatory acts. It is this very ambiguity that reveals the structural limits of soft law as a regulatory locus.

2.5 Factoring: the revision of the EBA Guidelines and the limits of soft law as a regulatory instrument

The structural criticalities already identified with regard to regulatory proliferation and the extensive use of soft law emerge with particular clarity in the factoring sector, which constitutes a privileged vantage point for observing the systemic tensions within the European regulatory architecture. The legal framework applicable to this activity demonstrates that, far from ensuring coherence, proportionality, and legal certainty, the EU regime often generates conceptual and operational distortions that reflect the intrinsic limits of the model adopted.

The central issue is the definition of default, which applies across all credit portfolios, including those arising from factoring transactions. This definition, initially introduced by Directive 2006/48/EC and now contained in Article 178 CRR, has been the subject of EBA Guidelines (EBA/GL/2016/07), with the stated aim of harmonising its application. However, the need for further clarification through domestic soft law instruments, such as Bank of Italy Circular No. 285/2013 and the 2022 interpretative note, illustrates how the system tends to produce uncertainty and regulatory layering rather than clarity and simplification. Within this framework, for example, purely technical or physiological payment delays by public administrations are automatically assimilated to a deterioration in creditworthiness, triggering a default classification: a disproportionate outcome stemming from the rigidity of the underlying regulatory approach.

The ongoing revision of the guidelines relating to Article 178 CRR, envisaged under CRR III, represents a further example of this dynamic. The underlying problem remains: it is not coherent for substantive policy matters to be regulated through soft law instruments, which are formally non-binding yet capable of producing significant conforming effects. This results in a systemic tension between the principle of legality and regulatory practice, as decisions of considerable importance are removed from the co-legislators and delegated to instruments that lack the procedural guarantees associated with binding legislative acts. The ambiguous legal status of soft law also complicates judicial review, thereby weakening the protection of affected parties' rights.

A further issue is the insufficient consideration of the specificities of factoring within the prudential framework. In several Member States, including Italy, lending and financing activities are carried out not only by credit institutions in the strict sense, but also by non-bank financial intermediaries, such as those authorised under Article 106 of the Consolidated Banking Act. These entities, which include a diverse range of specialised operators, from leasing and factoring companies to consumer credit intermediaries and private debt vehicles, play an increasingly important role in financing the real economy, often serving market segments or categories of firms that struggle to obtain traditional bank credit.

These intermediaries, although performing functions that partially overlap with those of banks, are characterised by less complex business models, leaner operational structures, and differently composed risk profiles. Italian national legislation, consistent with the logic of proportionate prudential supervision, provides for capital and organisational requirements that are calibrated to the nature, scale, and complexity of the activities performed. The domestic legislator, in line with the principle of proportionality set out in Article 5(4) of the Treaty on European Union[21] and reaffirmed in European banking regulation (for example, in Regulation (EU) No. 575/2013 – CRR and Directive 2013/36/EU – CRD IV, as subsequently amended)[22], has sought to balance system stability with the need to avoid imposing disproportionate burdens on smaller operators.

However, the automatic extension, or, in any event, the analogical application, of rules originally designed for credit institutions to these non-bank intermediaries

[21] "By virtue of the principle of proportionality, the content and form of Union action shall not exceed what is necessary to achieve the objectives of the Treaties." […]

[22] See, inter alia, Recital 45 of the CRD: "In order to ensure that institutions operating across several Member States do not face disproportionate burdens as a result of the continued allocation of authorisation and supervisory responsibilities to the authorities of individual Member States, it is essential to significantly enhance cooperation among competent authorities. The EBA should facilitate and strengthen such cooperation."

results in a clear regulatory disproportionality. This disproportionality is not merely an operational obstacle, manifesting itself in compliance costs that are excessive relative to the actual risks undertaken, but highlights a structural limitation of the European supervisory framework: namely, the continuing difficulty in calibrating regulation in a genuinely risk-based manner, capable of reflecting differences in risk profiles, leverage levels, funding structures, and the economic functions performed by different categories of intermediaries.

Although the European supervisory authorities, particularly the EBA, have repeatedly emphasised the importance of the principle of proportionality, for example in the Guidelines on the Supervisory Review and Evaluation Process (SREP)[23], the concrete implementation of this principle in secondary legislation and supervisory practice remains limited. In many cases, proportionality is applied only in a quantitative sense, on the basis of size thresholds, without adequate recognition of the qualitative specificities of the risks involved.

This rigidity has significant consequences: on the one hand, it disadvantages non-bank intermediaries in competition with operators in other jurisdictions where regulation is more flexible and tailored; on the other, it hinders the development of funding channels that serve as alternatives to bank credit, in contradiction with the objectives of diversifying sources of finance pursued under the Savings and Investments Union (SIU). More fundamentally, the issue reveals a conceptual limitation of the European regulatory framework, which still tends to privilege a bank-centric and uniform model, originally designed to safeguard the stability of the banking system in the post-crisis environment, but not always suited to governing the diversity of intermediation forms present in today’s market. The lack of sufficient “granularity” in prudential regulation thus risks constraining the capacity for innovation and adaptation within the European financial system, while also reducing the overall competitiveness of the internal market.

In this perspective, the issue of regulatory proportionality and differentiated supervisory models is directly intertwined with recent developments in European

[23] Cfr. EBA/GL/2022/03, see, for instance, para. 2.4.

financial law, starting with the revision of AIFMD2[24] and the broader debate on building a more integrated and inclusive capital market.
The new framework for alternative investment fund managers, although developed within the domain of asset management, reflects the same tension between uniformity and proportionality. It seeks to reconcile investor protection with the need to foster the development of new non-bank financing channels, such as private credit and direct lending[25]. In this sense, AIFMD2 introduces openings toward forms of regulated, but non-bank, credit intermediation, implicitly acknowledging that system-wide stability can no longer be pursued solely through the supervision of traditional credit institutions.
The same logic underpins recent initiatives in the field of open finance and financial data access, which aim to create a shared and interoperable infrastructure among different types of market participants, reducing barriers to entry and fostering more agile, technologically advanced, and investor-centred models of intermediation[26]. However, without a genuine evolution of the European regulatory culture, one capable of applying proportionality as a structural rather than a residual criterion, these openings risk remaining partial or internally inconsistent.
Ultimately, the challenge is not merely technical but conceptual: it requires rethinking the architecture of European financial regulation in light of a sustainable diversification of intermediation, in which supervision and prudential requirements are proportionate to actual risk and aligned with the economic function performed. Only such an approach can ensure that the declared, but still incomplete, objective of a genuine single market for capital and financing can be realised in practice, on the basis of the plurality of market participants and an appropriate balance among innovation, stability, and competition.

[24] Directive (EU) 2024/927 of the European Parliament and of the Council of 13 March 2024 amending Directives 2011/61/EU and 2009/65/EC as regards delegation arrangements, liquidity risk management, supervisory reporting, the provision of depositary and custody services, and loan origination by alternative investment funds (OJ L, 2024/927, 26.3.2024).
[25] See, for example, Recital 13 of the Directive: “Loan-originating investment funds can serve as an alternative source of financing for the real economy. Such funds may provide essential funding to small and medium-sized enterprises in the Union, which often face greater difficulties in accessing traditional lending sources. However, divergent national regulatory approaches may lead to regulatory arbitrage and varying levels of investor protection, thereby hindering the creation of an efficient internal market for loan origination by AIFs.”
[26] See the Proposal for a Regulation of the European Parliament and of the Council on a framework for financial data access, amending Regulations (EU) No. 1093/2010, (EU) No. 1094/2010, (EU) No. 1095/2010 and (EU) 2022/2554 (COM/2023/360 final).

Against this background, and with specific reference to factoring transactions involving local authorities, regulation should take into account the particular features of such operations and the distinct risk profile arising from the public nature of the debtor. As discussed in the contribution by Degni and Bianchi annexed to this research, credit risk vis-à-vis local authorities is generally limited, both for financially sound municipalities and for those experiencing financial stress. Beyond the fact that a public authority is not subject to insolvency proceedings, it provides essential services that are constitutionally protected; in such contexts, creditor protection is necessarily stronger. These elements may justify a less restrictive assessment of the effects of time on the evolution of credit quality and recoverability, an assessment that depends not on the nature of the transaction, but on the risk profile of the debtor.

The case of factoring therefore illustrates that the underlying issues are not tied to isolated market frictions, but to systemic tensions in the production of European financial regulation: the expanding reliance on soft law, the erosion of the ordinary legislative process, regulatory layering, disproportionate prudential burdens, and insufficient recognition of the specificities of concrete cases. Addressing these dynamics is not simply a matter of safeguarding the competitiveness of the sector; it is essential to preserving the coherence and the very legitimacy of the European financial legal order.

Part Three. Assessing Risk in Factoring Transactions (Gennaro De Novellis and Paola Schwizer)

The third part of the study aims to provide a systematic assessment of the credit risk associated with factoring, in light of the current European and national regulatory frameworks. The analysis is structured along three main lines.

First, it compares the economic performance and credit quality of the factoring sector with those of the traditional banking industry, using 2015–2024 time series that include indicators of profitability (ROE and ROA), operational efficiency (cost–income ratio), and asset quality (gross and net NPLs, bad loans, UTPs and past-due exposures). The time series used are drawn from the annual reports of SDA Bocconi's OSSFIN Observatory (hereafter "Ossfin data") and from the Annual Reports of the Bank of Italy[27]. This comparison makes it possible to assess the economic soundness of factoring and to highlight its structural differences relative to banking intermediation.

Second, the study conducts an empirical assessment of the specific risk characteristics of factoring, with particular attention to exposures to the Public Administration, a segment of special relevance for the Italian market. The analysis is based on proprietary elaborations of disaggregated data drawn from supervisory reports submitted to the Bank of Italy by Assifact member institutions, covering a perimeter that accounts for more than 95% of the national factoring market (hereafter "Assifact data")[28]. This information makes it possible to examine in detail the composition of NPEs, the distribution across past-due buckets, and the transition matrices, with the aim of identifying any misalignments between regulatory risk and the underlying economic risk. Particular attention is devoted to payment delays, often attributable to procedural factors rather than genuine default, which may lead to disproportionate default classifications.

Finally, the study provides a quantitative estimate of the capital impact of the current regulatory framework, calculating the increase in risk-weighted assets and regulatory capital absorption resulting from past-due classifications, as well as the corresponding loss in economic value. This counterfactual exercise makes it

[27] See Appendix 1 for the sample composition.
[28] See Appendix 1 for the sample composition.

possible to measure the difference between the current regime and an alternative scenario in which corrective proposals, such as those put forward by certain members of the research group in response to the public consultation launched by the European Banking Authority (2025b) in the document *"Draft guidelines amending Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013"*, dated 2 July 2025 (EBA/CP/2025/09), are adopted.

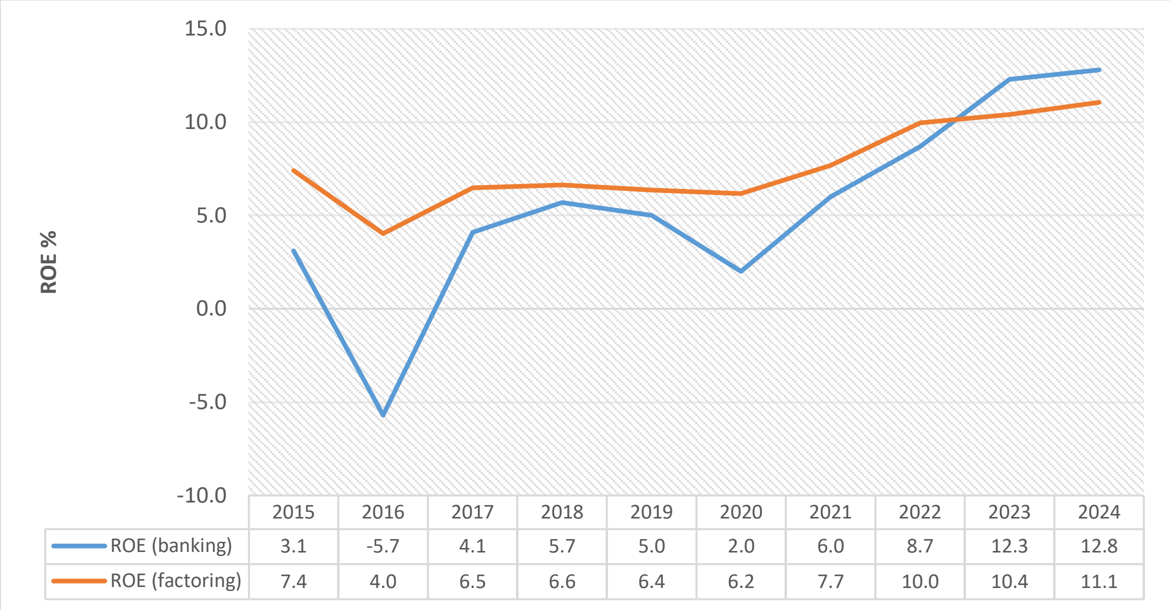
The overall aim is to assess whether current risk and performance metrics accurately reflect the true risk profile of factoring, or whether they are affected by distortions arising from the application of European and national prudential rules, with implications for the sector's competitiveness and its capacity to support the real economy.

3.1 A Comparison of the Performance of the Italian Banking System and the Factoring Sector

To assess the economic and risk characteristics of factoring in comparison with the traditional banking system, we begin with a comparative analysis of the main performance indicators observed over the 2015–2024 period. The aim is to highlight the structural similarities and differences between the two sectors, providing the reference framework for the subsequent investigation of credit risk and the effects of regulation.

Figure 3.1 compares the evolution of ROE in the Italian banking sector and in the factoring industry over 2015–2024. Overall, factoring shows a more stable profitability pattern, less exposed to credit cyclicality, whereas the banking system displays wider fluctuations. This greater variability in bank profitability, also confirmed by descriptive statistics (higher standard deviation), reflects the different sensitivity of the banking business model to credit risk dynamics and macro-financial conditions.

Figure 3.1 Comparison of ROE Evolution in the Banking Sector and the Factoring Industry



Source: Banca d'Italia and Ossfin

Table 3.1 confirms the evidence shown in the figure. The average ROE of the factoring sector, at 7.62%, exceeds that of the banking system (5.40%) and exhibits significantly lower volatility, as indicated by the standard deviation (2.21 versus 5.33). The range of values reinforces this conclusion: the banking system fluctuates between a minimum of –5.70% and a maximum of 12.80%, whereas factoring maintains consistently positive returns within a narrower interval (from 4.03% to 11.06%). Overall, factoring stands out for its greater resilience during downturns and for a less volatile profitability structure, while the banking sector displays a more cyclical profile, alternating between phases of sharp deterioration and periods of more pronounced recovery.

Table 3.1 Descriptive Statistics of ROE

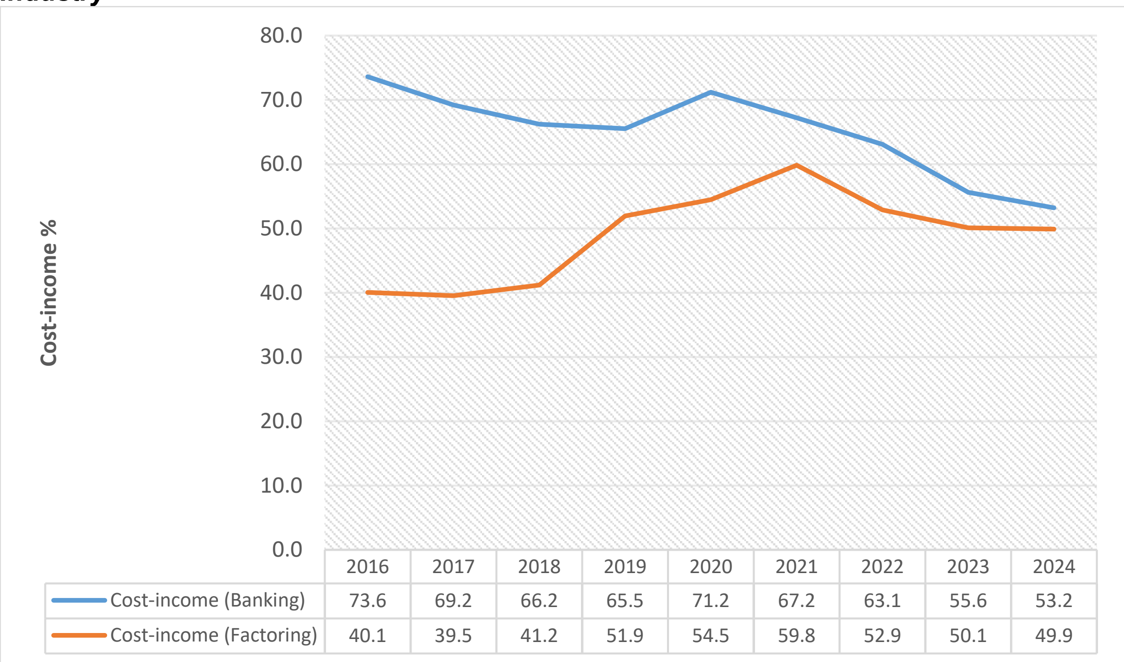
	ROE	
	Banking	Factoring
Minimum value	-5,70	4,03
1st quartile	3,35	6,40
2nd quartile	5,35	7,02
3rd quartile	8,03	9,40
Maximum value	12,80	11,06
Average	5,40	7,62

Standard deviation	5,33	2,21

The comparison of profitability levels must also be interpreted in light of the structural differences between the two operating models. For a given level of margins, efficiency in cost management directly affects the ability to generate profits. For this reason, the next step in the analysis focuses on the cost–income ratio, which makes it possible to assess the different weight of operating costs in the two sectors.

Figure 3.2 compares the evolution of the cost–income ratio in the banking sector and in the factoring industry over the 2016–2024 period. Banking shows consistently higher values than factoring, indicating a heavier operating cost structure and lower efficiency in converting revenues into margins. By contrast, the factoring sector displays a structurally more favorable and generally more stable profile, although with some fluctuations linked to the dynamics of intermediation margins.

Figure 3.2 Comparison of Cost-Income Evolution in the Banking Sector and the Factoring Industry



Source: Banca d’Italia and Ossfin

Table 3.2 confirms the evidence shown in the figure. The average cost–income ratio of the banking system stands at 65.12%, compared with 48.88% for the factoring sector, a structural difference of more than 16 percentage points. The standard deviation is 6.41 for banking and 7.11 for factoring, indicating an overall similar degree of variability, though slightly higher in the factoring segment. The extreme values are consistent with this picture: the banking sector ranges from a minimum of 53.20% to a maximum of 73.60%, while factoring varies between 39.53% and 59.83%. Overall, factoring exhibits greater operational efficiency and a structurally lower cost–revenue ratio than the banking system.

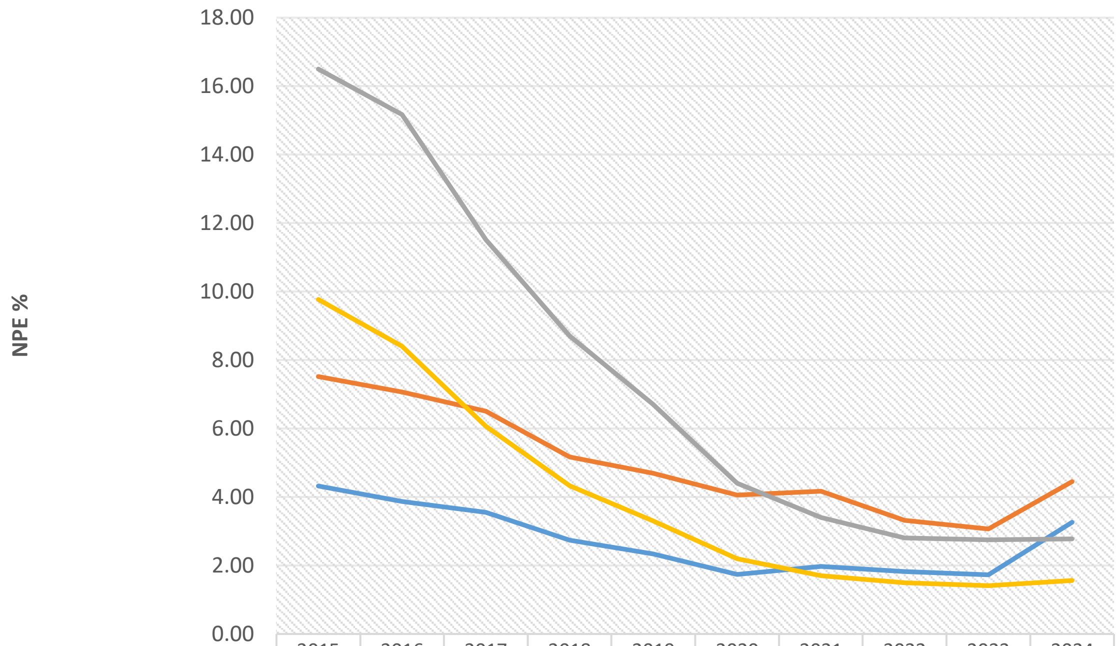
Table 3.2 Descriptive Statistics of Cost-Income

	Cost-income	
	Banking	Factoring
Minimum value	53,20	39,53
1st quartile	63,70	41,16
2nd quartile	66,30	50,11
3rd quartile	68,70	52,89
Maximum value	73,60	59,83
Average	65,12	48,88
Standard deviation	6,41	7,11

The next step is to assess the quality of the credit portfolio. To this end, the analysis focuses on the NPL ratio, both in its gross and net forms, in order to compare the degree of asset deterioration in the two sectors and to track its evolution over time.

Figure 3.3 compares the trends in the gross and net NPE ratios for the banking sector and the factoring industry over the 2015–2024 period. The banking system shows consistently higher levels and greater variability, reflecting a stronger exposure to the cyclical nature of credit risk. By contrast, factoring exhibits a lower and more stable level of deterioration over time, with fluctuations partly influenced by the regulatory classification of past-due exposures, particularly those related to the Public Administration.

Figure 3.3 Comparison of Gross and Net NPEs Evolution in the Banking Sector and the Factoring Industry



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Net NPE (Factoring)	4.32	3.87	3.56	2.74	2.34	1.74	1.97	1.82	1.73	3.26
Gross NPE (Factoring)	7.52	7.07	6.51	5.16	4.69	4.05	4.17	3.32	3.07	4.45
Gross NPE (Banking)	16.50	15.17	11.52	8.70	6.70	4.40	3.40	2.80	2.75	2.78
Net NPE (Banking)	9.77	8.40	6.07	4.33	3.30	2.20	1.70	1.50	1.41	1.56

Source: Banca d’Italia and Assifact

Table 3.3 confirms the evidence shown in the figure. The banking system’s gross NPE ratio averages 7.48%, compared with 5.00% for the factoring sector, with a standard deviation of 5.28 in the former and 1.54 in the latter, highlighting a marked difference in both levels and volatility. For the net NPE ratio, the average is 4.03% in banking and 2.74% in factoring, with standard deviations of 3.08 and 0.96, respectively. The minimum and maximum values are also consistent with this picture: the banking system ranges from 1.40% to 16.50%, while factoring lies between 1.73% and 7.52%. Overall, factoring exhibits a structurally lower and less volatile risk profile than the banking sector, reflecting a different degree of exposure to credit deterioration.

It is important to note that the increase observed in 2024 in the factoring segment, with the gross ratio rising to 4.5% and the net ratio to 3.3%, does not reflect a genuine deterioration in credit quality, but is largely attributable to the growth of past-due exposures to the Public Administration. These positions, often linked to technical delays in payments rather than to actual insolvencies, are nonetheless classified as non-performing under the current regulatory criteria, generating an increase in the NPL ratio that is primarily accounting-driven rather than economic in nature.

Table 3.3 Descriptive Statistics of NPE ratio

	Banking		Factoring	
	Gross NPE	Net NPE	Gross NPE	Net NPE
Minimum value	2,80	1,40	3,07	1,73
1st quartile	2,95	1,63	4,08	1,86
2nd quartile	5,55	2,75	4,57	2,54
3rd quartile	10,80	5,65	6,17	3,49
Maximum value	16,50	9,80	7,52	4,32
Average	7,48	4,03	5,00	2,74
Standard deviation	5,28	3,08	1,54	0,96

3.2 Risk in Factoring

Credit risk is the central dimension in the assessment and management of factoring transactions, yet, as extensively discussed in the first part of the study, it exhibits specific characteristics that clearly distinguish it from the type of risk typical of traditional bank lending. In factoring, the counterparty whose probability of default is ultimately measured is not only the client–seller, but also the assigned debtor, a party that has no direct financing relationship with the intermediary. This distinctive configuration introduces additional layers of complexity in risk measurement: on the one hand, the exposure depends on the creditworthiness of third parties who may be entirely outside the commercial relationship with the factor; on the other, the performance of the credit may be influenced by procedural or contractual dynamics that are unrelated to solvency in the strict sense.
The distinction between pro soluto and pro solvendo arrangements, the sectoral and geographical concentration of the portfolio, the quality of collection and servicing processes, and the timing structure of payments all play a decisive role in shaping expected losses and the volatility of risk indicators.

The European regulatory framework, defined by Regulation (EU) No. 575/2013 (CRR) and by the EBA Guidelines on the definition of default, adopts standardised criteria for identifying and classifying non-performing exposures (NPEs), including the use of time-based past-due thresholds. This approach, designed to ensure comparability and consistency across institutions, has the advantage of being simple and objective, but it may be poorly aligned with the underlying economic risk in segments such as factoring, where delays may stem from technical or administrative reasons rather than from genuine credit deterioration. The potential consequence is a misalignment between “regulatory” and “actual” risk, with direct implications for capital requirements and for the representation of credit quality.
The analysis presented allows the phenomenon to be observed from a dual perspective: the operational perspective, rooted in the realities of the sector, and the regulatory perspective, reflected in supervisory metrics. The period under review makes it possible to track the evolution of the main components of deterioration (bad loans, unlikely-to-pay exposures, and past-due NPEs), to analyse the time distribution of exposures across past-due buckets, and to assess, through transition matrices, the persistence and nature of delays. The approach adopted gradually brings to light the role of past-due exposures in shaping regulatory indicators and enables a comparison with underlying risk dynamics, offering insights for a reflection on the proportionality of the prudential treatment applied to factoring.
The analysis of the breakdown of non-performing exposures in the factoring sector is the starting point for understanding the nature and evolution of risk over time. Under the current regulatory classification, non-performing credit is divided into three components: bad loans, unlikely-to-pay exposures, and past-due NPEs. Each of these categories reflects a different condition of the debtor and contributes in a distinct way to the overall representation of portfolio quality.
Over the 2015-2024 period, the data analysed show remarkable stability in the most severe components (Figure 3.4). Bad loans declined from 1.18% in 2015 to around 0.5% in 2024, following a downward trend that reflects the limited incidence of definitive insolvencies and the sector’s ability to keep the share of unrecoverable credits low. Unlikely-to-pay exposures decreased even more

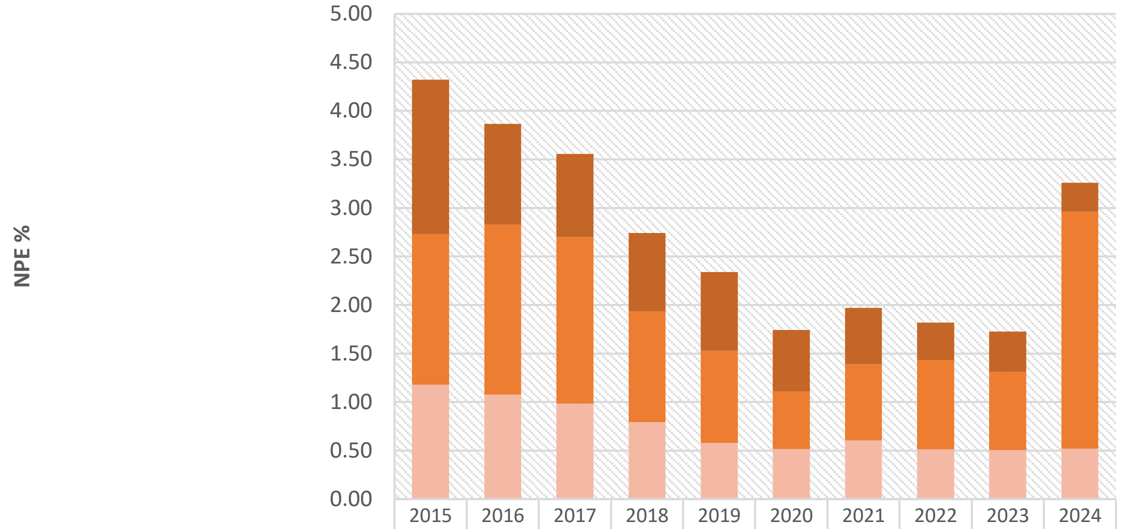
sharply, from 1.59% in 2015 to less than 0.3% in 2024. This pattern indicates an improvement in credit quality and effective management of intermediate-risk positions, which do not migrate into bad loans.

The picture is different for past-due NPEs. For most of the period, their weight fluctuated within a narrow range, between 1% and 1.75%, without clear structural upward or downward trends. However, in 2024 a significant increase is observed, reaching 2.44%, which is not mirrored by any deterioration in the other two components. The absence of a corresponding movement in bad loans or unlikely-to-pay exposures suggests that this rise is attributable to a classification factor that is distinct from any actual worsening of debtor solvency.

From an interpretative standpoint, the dynamics observed for past-due NPEs deserve attention for two reasons. First, this category is directly influenced by the time-based past-due criterion, namely, the number of days past due established by regulation for classifying an exposure as non-performing. Second, in factoring, delays may stem from technical or procedural factors rather than from solvency problems. When an increase in this component occurs without any signs of deterioration in the other two categories, it is reasonable to hypothesise that the regulatory metric is overstating the underlying economic risk.

This initial evidence confirms the importance of avoiding an isolated reading of regulatory data and instead assessing such data within the broader context of portfolio dynamics and the operational specificities of factoring. The next step will be to verify whether this asymmetry becomes more pronounced in the presence of certain portfolio characteristics, such as greater exposure to customer segments or sectors with particularly long payment cycles, in order to understand whether the phenomenon is generalised or concentrated.

Figure 3.4 Breakdown of Net NPEs in the Factoring Sector



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Unlikely-to-pay exposures (net ratio)	1.59	1.04	0.86	0.81	0.81	0.63	0.58	0.39	0.42	0.30
Past-due impaired exposures (net ratio)	1.55	1.75	1.71	1.14	0.95	0.60	0.78	0.92	0.81	2.44
Bad loans / Non-performing loans (net ratio)	1.18	1.08	0.99	0.79	0.58	0.51	0.61	0.51	0.51	0.52

Source: Assifact

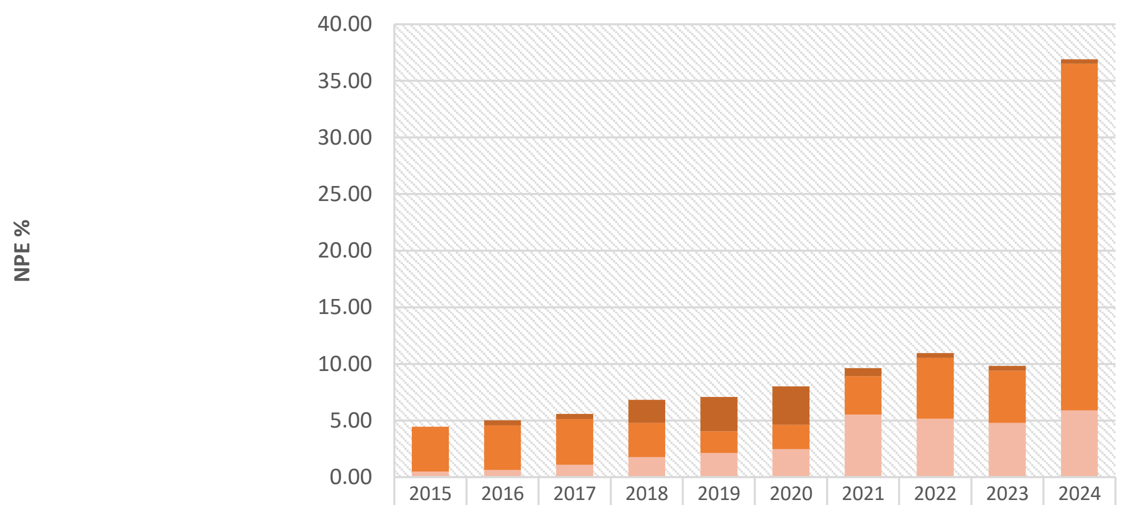
In Figure 3.5, the analysis is narrowed to operators with a high concentration of their portfolios in exposures to the Public Administration, selecting those factors whose exposure to public-sector debtors exceeds 50%. This subset accounts for approximately €4 billion out of €7 billion of total exposures to the PA, thereby ensuring an adequate representativeness of the phenomenon. Within this subset, the share of bad loans remains consistently low and, in several years, is even lower than the sector-wide average, confirming the rarity of definitive insolvencies even in portfolios with limited diversification. Unlikely-to-pay exposures display some variability, with increases in certain years, but remain at levels consistent with well-managed intermediate risk and do not exhibit peaks that would indicate any structural deterioration.

The component that stands out in terms of both variability and magnitude is, once again, that of past-due NPEs. In the early years of the period considered, these exposures fluctuate at levels already higher than those observed at the aggregate level, often around 3-5%, confirming that less diversified portfolios with concentrated exposure to certain segments are more sensitive to payment-delay phenomena. However, it is in the most recent year that an exceptional jump occurs: past-due NPEs rise to 30.61% of the portfolio, a figure that is an order of magnitude higher than both the sample’s historical average and the levels observed in the sector as a whole.

This increase, so large and abrupt, is not accompanied by comparable changes in bad loans or unlikely-to-pay exposures. The absence of a parallel deterioration in the components that capture actual insolvency risk suggests that the phenomenon is largely attributable to the classification mechanism linked to the exceeding of regulatory past-due thresholds. In this case, the regulatory reading significantly amplifies the apparent level of portfolio deterioration, even though the underlying economic risk remains contained.

This evidence reinforces the findings of the aggregate analysis: the volatility of the past-due NPE component can be far more pronounced in certain portfolios, particularly those characterised by debtors with long or highly variable payment practices. The next step in understanding the nature of this dynamic is to examine the distribution of exposures across past-due buckets, in order to assess how the time structure of delays has evolved and the extent to which these delays are concentrated in the classes that most affect regulatory non-performing classification.

Figure 3.5 Breakdown of Net NPEs for Factors Most Exposed to the Public Administration



	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Unlikely-to-pay exposures (net ratio)	0.00	0.44	0.44	2.05	3.04	3.38	0.72	0.43	0.42	0.39
Past-due impaired exposures (net ratio)	3.95	3.94	4.03	3.01	1.93	2.16	3.39	5.37	4.62	30.61
Bad loans / Non-performing loans (net ratio)	0.49	0.63	1.09	1.78	2.12	2.47	5.51	5.16	4.78	5.89

Source: Assifact

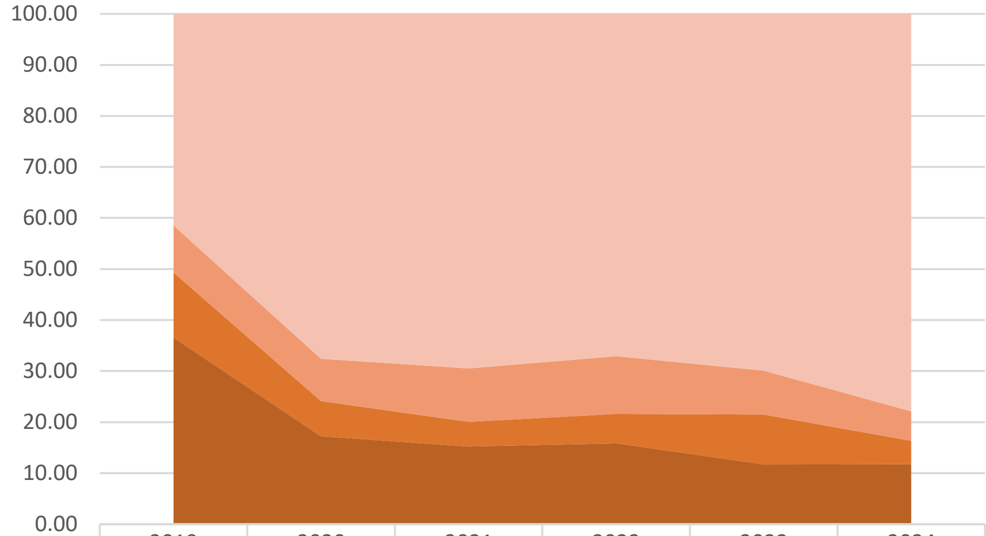
The distribution of past-due exposures to the Public Administration by ageing buckets highlights a structural evolution in payment times, with direct implications for the regulatory classification of these positions (Figure 3.6). In the case of public-sector debtors, the regulatory framework provides for a higher threshold for recognising a past-due exposure as non-performing: not 90 days, as for private-sector clients, but 180 days. It is therefore the breach of this time limit that automatically triggers the classification of the exposure as “past-due NPE” under the EBA definition of default.

The data show that, between 2019 and 2024, the share of positions with delays exceeding one year increased from 41.47% to 77.91% of total exposures to the Public Administration. At the same time, the buckets between 180 days and one year decreased from 9.22% to 5.73%, and exposures with delays below 180 days also declined. This shift towards the longer tail of the distribution means that a growing portion of the portfolio exceeds the regulatory 180-day threshold and is therefore automatically classified as non-performing, even though the probability of economic loss remains, in most cases, very low.

This phenomenon is also reinforced by an apparently counterintuitive dynamic: while the average payment times of the Public Administration on more recent invoices tend to improve, older positions often remain unpaid for longer periods, pending the completion of administrative or recovery procedures that have been initiated. As a result, even in the presence of an improvement in average payment times, the share of invoices falling into the highest ageing buckets increases, amplifying the effect of the 180-day regulatory threshold.

This dynamic partly explains the jump observed in the “past-due NPE” component of the NPE breakdown for 2024: the increase does not reflect a sudden deterioration in the Public Administration’s credit quality, but rather an accumulation of positions exceeding the 180-day threshold, often due to procedural factors or chronic delays in payment processes. As we will see in the analysis of the transition matrices, a significant share of these positions returns to performing status or is collected without migrating through the more severe categories of deterioration, confirming the misalignment between the regulatory representation and the underlying economic risk.

Figure 3.6 Exposure to the Public Administration by past-due buckets



	2019	2020	2021	2022	2023	2024
Over 1 year	41.47	67.59	69.45	67.11	69.88	77.91
180 days to 1 year	9.22	8.27	10.51	11.26	8.64	5.73
90 to 180 days	12.75	6.89	4.85	5.80	9.81	4.60
1 to 90 days	36.55	17.25	15.19	15.84	11.67	11.75

Source: Assifact

The analysis of the transition matrices presented in Table 3.4 was conducted exclusively on financial intermediaries authorised under Article 106 of the Italian Banking Act (TUB), for which a complete and reconcilable historical series of positions is available. Although limited to this perimeter, the sample is adequately representative of the sector, as it covers approximately 52% of total market turnover.

As is well known, each cell in the matrix indicates the percentage share of exposures that, from a given originating risk class, migrate into a given destination class in the following year. The diagonal represents exclusively the positions that remain in the same class from one year to the next, net of new entries, and thus provides a “pure” measure of persistence.

The tables introduce an “Other” column, which serves as a residual category: net of transitions to and from that class, it identifies whether the difference between outflows (such as collections, write-offs, or closures) and inflows (mainly new performing receivables) is positive. The column takes a positive value when outflows between one financial year and the next exceed inflows, and zero otherwise. This specification makes it possible to represent more accurately the overall movements of the portfolio that do not result in migrations across risk categories. The annual transition matrices highlight several recurring patterns. The share of performing exposures is overwhelmingly dominant and stable, close to or above 99%, confirming the overall soundness of the portfolio and its strong ability to maintain regular status. Bad loans, although limited in incidence, display relatively high persistence and a non-negligible share in the “Other” column, indicating recoveries or definitive closures.

The most dynamic component remains that of past-due non-performing positions. In several years, the diagonal share exceeds 40%, but there are also significant values in the “Other” column, indicating that a substantial portion of these exposures is closed within the year, mainly through collections or technical write-offs, without migrating to more severe states of deterioration. Migrations to bad loans are marginal, generally below 1%, while those to unlikely-to-pay exposures remain limited. The temporary nature of many of these positions confirms that their classification often stems from the breach of past-due time thresholds rather than from a genuine deterioration in solvency.

Table 3.5, which reports the average transitions over the period 2019-2024, confirms these findings: the average share of performing exposures remains structurally very high; bad loans retain a limited weight; and past-due non-performing positions are characterised by significant interaction with the “Other” column and by limited transitions to more severe categories. The repeated nature of this behaviour reinforces the idea that the past-due NPE component, although relevant in regulatory metrics, often represents a formal and reversible deterioration, with an actual probability of loss far lower than that implied by the classification.

This connection between the year-by-year reading and the multi-year averages makes it possible to grasp the structural nature of the phenomenon: fluctuations in this category have a significant impact on the overall NPE ratio, but their economic meaning is limited. It is here that the gap between regulatory risk and actual risk becomes most evident, with concrete consequences for the representation of credit quality and for the capital absorption required of intermediaries.

Table 3.4 Annual transition matrix across non-performing states

2019-2020	Performing	Bad Loans	Unlikely-to-Pay	Past Due	Other
Performing	88.42	0.01	0.30	0.46	10.82
Bad Loans	1.58	82.65	0.00	0.00	15.76
Unlikely-to-Pay	6.64	5.03	58.67	0.00	29.66
Past Due	42.57	0.40	4.53	15.12	37.37

2020-2021	Performing	Bad Loans	Unlikely-to-Pay	Past Due	Other
Performing	99.10	0.01	0.31	0.58	0.00
Bad Loans	1.32	83.74	0.11	0.00	14.84
Unlikely-to-Pay	1.54	8.10	65.75	0.05	24.55
Past Due	29.58	0.56	5.66	18.93	45.28

2021-2022	Performing	Bad Loans	Unlikely-to-Pay	Past Due	Other
Performing	99.34	0.02	0.15	0.49	0.00
Bad Loans	0.09	85.38	0.00	0.00	14.52
Unlikely-to-Pay	5.94	2.58	58.87	0.22	32.40
Past Due	28.82	0.18	3.25	23.66	44.08

2022-2023	Performing	Bad Loans	Unlikely-to-Pay	Past Due	Other
Performing	99.21	0.01	0.40	0.38	0.00
Bad Loans	0.10	94.44	0.00	0.00	5.46
Unlikely-to-Pay	2.82	4.97	25.12	0.56	66.54
Past Due	60.59	0.54	4.65	20.89	13.33

2023-2024	Performing	Bad Loans	Unlikely-to-Pay	Past Due	Other
Performing	99.53	0.01	0.22	0.24	0.00
Bad Loans	0.00	79.17	0.05	0.00	20.78
Unlikely-to-Pay	5.53	24.51	34.80	2.44	32.72
Past Due	48.55	0.06	8.19	8.68	34.52

Note: The diagonal reports exclusively the positions that remained in the same risk category from one financial year to the next, already net of any new entries, and therefore provides a clean measure of persistence.
The “Other” column serves as a residual category: net of transitions to and from that class, it captures whether the difference between outflows (such as collections, write-offs, or closures) and inflows (new receivables, particularly performing ones) is positive. It takes a positive value when outflows exceed inflows, and zero otherwise.

Table 3.5 Average transition matrix for the period 2019–2024 across non-performing credit states

2019-2024	Performing	Bad Loans	Unlikely-to-Pay	Past Due	Other
Performing	97.12	0.01	0.28	0.43	2.16
Bad Loans	0.62	85.08	0.03	0.00	14.27
Unlikely-to-Pay	4.49	9.04	48.64	0.65	37.17
Past Due	42.02	0.35	5.26	17.46	34.92

Note: The reading logic remains the same as in Table 3.4. The table reports the average percentage flows observed over the entire period, providing a summary of the structural dynamics of the portfolio.

The analysis conducted on data for the period 2019-2024 made it possible to observe credit risk in factoring from multiple perspectives, combining the breakdown of NPEs, the distribution of exposures across past-due buckets, and the examination of transition matrices. The integrated reading of this evidence provides a coherent picture that also points to a systematic misalignment between the regulatory representation of risk and the underlying economic risk.

The NPE breakdown showed substantial stability in bad loans and unlikely-to-pay exposures, alongside greater volatility in the “past-due non-performing” component. The latter, especially in certain portfolio segments or in the presence of exposures to counterparties with structurally long payment times, may experience sudden and significant increases without any deterioration in the other non-performing categories.

The distribution across past-due buckets clarified the roots of this phenomenon. The shift of an increasing share of exposures toward the longest buckets, and, for public-sector counterparties, beyond the regulatory 180-day threshold, automatically triggers the reclassification of large portions of the portfolio as non-performing. This occurs even in the absence of any increase in the probability of loss, since in factoring, particularly in dealings with the Public Administration, delays often stem from settlement practices and procedural timelines rather than from financial distress of the debtor.

The transition matrices provided empirical confirmation of this interpretation. A substantial share of positions classified as past-due non-performing is closed within the year, through regularisation or collection, without migrating to more severe deterioration states. Migrations to bad loans are marginal, and those to unlikely-to-pay exposures remain limited. The summary table reporting averages for 2020-2024 showed that this behaviour is recurrent over time, demonstrating that the phenomenon is structural rather than episodic.

Overall, the data indicate that the regulatory classification based on past-due criteria tends to generate a “formal” deterioration that overstates actual risk. This misalignment has at least three main implications: first, it affects the representation of credit quality, amplifying the perceived level of risk; second, it leads to an increase in risk-weighted assets and thus in capital absorption, with potential negative effects on profitability; and third, it may distort competitive comparability between factoring and other forms of financing that are less sensitive to delays of a technical nature.

These findings suggest the need to reflect on the adequacy of the regulatory treatment applied to factoring, particularly for segments characterised by historically high recovery rates.

3.3 Capital Requirements and the Impact of EBA Regulations

3.3.1 Regulatory Framework and Proposed Amendments under Consultation

The prudential treatment of factoring transactions under the European framework is defined primarily by Regulation (EU) No. 575/2013 (Capital Requirements Regulation – CRR), Directive 2013/36/EU (Capital Requirements Directive – CRD IV), and the European Banking Authority’s Guidelines on the definition of default, issued in 2016 (EBA/GL/2016/07) and incorporated into the national framework through the supervisory provisions of the Bank of Italy. These regulations establish uniform criteria for the classification of non-performing exposures, applicable to both banking and non-banking intermediaries, with the aim of ensuring consistency and comparability in risk metrics.

For factoring, as for other forms of credit, the classification of an exposure as being in default may occur either due to a material default (unlikely to pay) or due to the breach of a time-based past-due threshold. The latter is generally set at 90 days after the contractual due date, with an extension to 180 days for exposures to the Public Administration, as established by Article 178 of the CRR and by paragraphs 25 and 26 of the 2016 EBA Guidelines. In July 2025, the EBA (EBA/CP/2025/09) launched a public consultation on an update of its Guidelines, introducing several amendments that have a non-negligible impact on the prudential treatment of factoring. As illustrated in the table in Appendix 2, the proposed revision includes, first and foremost, an extension from 30 to 90 days of the so-called “exceptional treatment” for non-recourse factoring transactions, applied to the debtor’s entire position. This amendment aims to make the counting of days past due more consistent with the economic reality of the sector, acknowledging that, in the case of non-recourse operations, the nature of the credit and the recovery processes justify a longer time threshold before classifying an exposure as in default. The new text also introduces two additional cases within the scope of so-called “technical default” (see Amendment 12 in Appendix 2), governing situations in which the assigned debtor, not adequately informed of the transfer, makes payment to the seller rather than to the factor, or cases in which, in undisclosed factoring arrangements, the debtor has made the payment within 90 days of the due date but the funds are transferred to the factor only afterwards for purely procedural reasons. In both situations, the aim is to avoid default classifications arising from delays that are immaterial in terms of actual credit risk, although the final wording does introduce time-related conditions that, in some circumstances, may prove less favourable than the previous framework (see Amendments 13 and 14 in Appendix 2). At the same time, the revision project reorganises the content of paragraphs 31 and 32 of the 2016 Guidelines, transferring part of the provisions to the new paragraph 23 and redefining the structure of the rules governing not-notification (undisclosed) factoring. This reformulation relocates these scenarios within the scope of “technical default,” modifying in some sections the time references and the conditions for suspending the counting of days past due.

The rules for exposures to the Public Administration remain unchanged, and these exposures continue to be subject to the 180-day threshold for classification as past due. This aspect is particularly relevant for the Italian market, where factoring towards the Public Administration represents a significant share of the portfolios of several operators, and where payment delays often stem from administrative procedures or regulatory constraints rather than from genuine financial difficulties of the debtor.

In responding to the EBA consultation, particular attention was devoted to the role of paragraph 18 of the Guidelines[29], highlighting that the counting of days past due should be suspended in cases where delays in Public Administration payments stem from legal, administrative, or procedural impediments rather than from an actual deterioration in repayment capacity. This interpretation prevents default classifications arising solely from technical delays beyond the 180-day threshold, thereby reducing distortions in risk-weighted assets while maintaining a coherent prudential safeguard.

3.3.2 An Economic Interpretation of the Regulatory Amendments

The analysis of the amendments proposed by the EBA in the 2025 draft shows that the expected impact on the factoring sector is heterogeneous, affecting operators to varying degrees depending on their specific operating models and the composition of their receivables portfolios.

The extension of the "exceptional treatment" from 30 to 90 days for non-recourse factoring transactions, as set out in the new paragraph 23, represents a measure which, although limited in scope, introduces a greater degree of proportionality into the past-due framework. This amendment was met with strong approval from market participants, as evidenced by the broad support expressed by almost all of the 19 entities that responded to the EBA consultation[30]. In economic terms, this amendment is likely to reduce the frequency of default classifications arising solely from timing-related reasons, particularly in B2B commercial relationships characterised by structurally longer payment practices. A decrease in the number of positions exceeding the past-due threshold would, all else being equal, result in a smaller increase in risk-weighted assets and, consequently, a reduction in the regulatory capital absorbed.

[29] Par. 18 (in Section "Counting of days past due"): Where the repayment of the obligation is suspended because of a law allowing this option or other legal restrictions, the counting of days past due should also be suspended during that period. Nevertheless, in such situations, institutions should analyse, where possible, the reasons for exercising the option for such a suspension and should assess the possible indications of unlikeliness to pay, in accordance with Articles 178(1) and (3) of Regulation (EU) No 575/2013 and Section 5 of these guidelines.

[30] The responses can be viewed at the following link: https://www.eba.europa.eu/publications-and-media/events/consultation-paper-amending-guidelines-definition-default.

The new provisions on “technical default” (paragraph 23 of the Guidelines) aim to reduce classifications arising from procedural delays. However, the transfer of two provisions from paragraphs 31 and 32 to paragraph 23 ((e) and (f))[31] may create an apparent inconsistency between, on the one hand, the principle of protecting the non-notified debtor who has made payment in the presence of the two new technical events, and, on the other hand, the principle set out in paragraph 31 whereby a notified debtor who mistakenly pays the assignor may be classified as in default if the payment occurs close to the 90-day past-due threshold. To strengthen consistency in the interpretation of technical past-due situations, it was therefore suggested that paragraph 31 be removed from the Guidelines.
In line with these observations, several responses to the consultation highlighted inconsistencies and critical issues in the amendments to paragraphs 31 and 32, particularly regarding the treatment of undisclosed factoring, the impossibility for factors in such cases to manage direct collection of the receivable, and the counting of days past due when the debtor has made payment directly to the assignor. It was also noted that this provision is not aligned with Article 5(4) of CRR3, which links the credit obligation to the contract between the factor and the client, not to the assigned debtor.
Overall, the reform appears less decisive than expected and could, in practice, introduce new rigidities in the management of credit risk.
With regard to non-recourse factoring, the new definition of “credit obligation” introduced by CRR3 (Article 5(b)(4)) is not reflected in the rules that determine the start of the past-due count (paragraph 28). According to CRR3, a credit obligation is any obligation arising from a credit agreement, including principal, accrued interest, and fees, owed by a debtor to the financial intermediary. This definition establishes a direct link between the credit contract and the financial intermediary.

[31] In the proposed new Guidelines, paragraph 23 is supplemented with points (e) and (f) as follows: (e) Where the obligor has not been adequately informed about the cession of the receivable by the factor’s client and the institution has evidence that the payment for the receivable has been made to the client. (f) In the specific case of undisclosed factoring arrangements, where the payment was made by the obligor to the client before the payment was 90 days past due and the transfer of this payment from the client to the factor occurred after the 90 days.

However, in the case of factoring, the contract exists only between the financial intermediary and its client (the assignor), not between the intermediary and the assigned debtor, who has no contractual relationship with the factoring company. The factoring agreement between factor and assignor is in fact independent of the underlying supply contract between assignor and debtor, from which the assigned trade receivables originate. Moreover, it is the credit agreement between the supplier and the factor that transfers to the financial intermediary the right to collect the receivable, and it is within that agreement that the effective contractual duration of the transaction is defined, which may differ from the maturity originally agreed between supplier and customer.

This distinction is particularly important where receivables are purchased already overdue (as often occurs with public-sector debtors). In such cases, the duration of the financial operation cannot logically be linked to the commercial due date of the invoice but must instead reflect the terms agreed between the supplier and the factor. In practice, this effective duration is either contractually specified or embedded in the pricing, and it is already used as a reference in other forms of factoring. Applying the effective contractual duration to non-recourse factoring would, therefore, ensure greater consistency and proportionality.

From a management perspective, contractual maturity is the only meaningful reference for planning accounting, credit management, and risk control processes in factoring. In recourse factoring, the factor uses the effective contractual maturity agreed with the assignor as the administrative and accounting reference, but in operational practice it acts promptly to request payment of the receivable and, if necessary, to initiate recovery actions against the assigned debtor. In accounting, it aligns revenue recognition with the agreed duration of the operation, avoiding distortions that would arise if invoice dates were used instead. In credit management, it underpins correct pricing, timely and effective collection activities, and reliable early warning signals, whereas reliance on invoice dates would generate misleading alerts and inefficiencies. Finally, in risk management, effective maturity determines liquidity planning and interest rate risk monitoring. Using invoice due dates would underestimate funding needs and distort repricing buckets, thereby increasing exposure to risk.

An integrated management of accounting, reporting and risk frameworks is only possible when using the effective contractual maturity of the operation as the reference date. By contrast, requiring the counting of days past-due from the original invoice maturity creates a clear misalignment between regulatory classification and the actual operations of factoring companies, and appears inconsistent with sound credit and risk management practices.

Notwithstanding the proposed amendments, certain critical issues remain within the regulatory framework, which could hinder the future development of the factoring industry. It is certainly positive that the current provisions concerning the treatment of exposures to central governments, local authorities, and public sector entities (paragraphs 25 and 26 of EBA/GL/2016/07) provide a degree of flexibility for factoring in cases involving the transfer of receivables against public administrations.

However, the intended flexibility in reflecting the actual risk profiles of these counterparties may not be fully realised unless accompanied by a consistent and coordinated application of other complementary measures, such as those set out in paragraph 18 of the Guidelines, which acknowledge that legal impediments and restrictions may justify a suspension of repayments and of the enforceability of an invoice, without necessarily triggering a default by the debtor. In practice, this flexibility could be weakened by instances of national gold-plating, notwithstanding the important role of factoring in mitigating the inefficiencies of public entities and in supporting both their value chain and the liquidity needs of their suppliers. It would therefore be important to ensure that the specific features of certain products are appropriately recognised, with due regard to any relevant sector-specific provisions, such as those governing payment obligations by public administrations that are currently in force in some Member States, including Italy. Empirical evidence from the Italian market, as further demonstrated in the following Section 3.3.3, shows that delays beyond 180 days are frequently the result of administrative or procedural bottlenecks rather than genuine credit deterioration. These "technical" delays inflate the stock of non-performing exposures.

As a result, the current rule leads to:

- Artificially high NPE ratios, especially in factoring portfolios concentrated on public sector receivables.
- Unnecessary increases in risk-weighted assets (RWAs) and capital absorption, with no corresponding reduction in effective credit risk.
- Distortions in competitiveness, as factoring is disproportionately penalised compared to other forms of financing not subject to the same rigid classification.
- Reduced credit supply to SMEs, since capital tied up in overestimated defaults reduces the sector's lending capacity.

To address this issue, it was considered appropriate, when responding to the EBA consultation, to draw attention to the application of paragraph 18 by the National Competent Authorities, which should be encouraged to implement the measures provided in a manner consistent with their respective national legal framework frameworks, particularly, in the case of public administration, by taking due account of specific national provisions and circumstances that may hinder the timely settlement of obligations related to trade payables. Such an approach would help ensure proportionality, prevent misleading default classifications, and promote greater alignment between the regulatory treatment and the actual risk profile of factoring. In the case of Italy, for instance, the following factors represent examples of the above-mentioned provisions that might suspend the ability of the public body to pay or enforceability of the invoice, and may explain procedural delays:

- Misalignments between expenditure forecasts and actual budgetary availability (commitments–funding–payments). This situation concerns public-sector entities, which for instance in Italy are required under Legislative Decree No. 267/2000 to ensure that every expenditure is properly budgeted and supported by an allocated appropriation. Non-payment may occur when the necessary funds are not made available, have expired, have been diverted to other purposes, or when a public grant has been lost. Such cases fall under events related to legal impediments to payment mentioned in paragraph 18. The event should be documented through correspondence with the public body, and the lack of coverage can be identified when the relevant budget line does not provide sufficient appropriations for the approved expenditure. The situation is resolved once the funds are re-entered in the body's budget.

- Services provided beyond regional spending caps. In Italy, since 2009, regional spending caps have been legally enforceable against suppliers, and this provision applies primarily to entities in the healthcare sector. Consequently, claims by creditors for services rendered beyond these limits are typically disputed, except for certain categories of expenditure such as emergency care. According to the EBA Guidelines, these situations fall under paragraph 18 (events related to legal impediments to payment), paragraph 29 (events linked to dilution risk), and paragraph 19 (disputes regarding the existence or amount of the credit obligation). The event is documented through correspondence with the public body, and disputes are generally resolved through judicial proceedings.
- Non-payment due to missing or incomplete supporting documentation. The situation should be documented through correspondence with either the assigned debtor or the assignor. The counting of past-due days for the relevant invoices is suspended until the dispute is resolved, and the invoice should be considered not yet due during this period. If the dispute is resolved in favour of the debtor, any reduction in the commercial receivable amount should be reflected in the calculation of *past-due* days. In all cases, the counting of arrears should take due account of the payment terms specified in the contractual agreements. The resolution of the dispute should also be documented. If the case is brought before a court or handled through another formal procedure by a competent external body, the dispute is considered resolved once the decision becomes final or otherwise irrevocable.

As highlighted in the second part of the Study and in the accompanying paper on the Public Administration’s accounts payable cycle, according to what appears to be the prevailing jurisprudence in the matter in Italy, any claim against a public body becomes liquid and enforceable at the time the payment order is issued, or upon completion of the necessary administrative procedures. Additionally, given that the obligation to pay already arises under general civil law provisions, the same nature of the debtor, being a public body, lends that obligation a particular significance and weight compared with that of a private debtor.
Finally, although the EBA Guidelines and their revision constitute an essential instrument for ensuring the consistent application of Regulation (EU) 2024/1623 and for preserving a genuine level playing field within the Union, the regulatory framework remains complex and fragmented. In line with the EU’s renewed commitment to regulatory simplification, extensively discussed in the second part of this study, it is essential that the forthcoming framework promotes clarity, proportionality and consistency across Member States. Additionally, it is of particular importance to avoid national “gold plating” practices, which may lead to fragmentation, distortions of competition and uneven implementation of EU rules.
With regard to the definition of default, while the EBA Guidelines aimed at harmonising the application of article 178 CRR, in Italy the National Competent Authority saw the need for further clarification through national soft-law instruments (Bank of Italy September 2022 interpretative note, apparently the only one of its kind in Europe), which introduces certain readings not reflected in other countries and may therefore lead to potentially divergent practices. For instance, purely technical or physiological delays in payments by public administrations are automatically treated as a deterioration in credit quality, resulting in a default classification, an outcome that appears disproportionate and stems from the rigidity of the current regulatory framework.
Ensuring a genuine level playing field across jurisdictions is essential to maintaining fair and efficient conditions for all market participants. A structured review of national practices in the context of the Guidelines’ update would therefore help to strengthen proportionality, convergence, and legal certainty, while reducing unnecessary complexity. In doing so, the EBA would fully exercise

its mandate under Article 16 of Regulation (EU) No. 1093/2010, promoting consistent and effective supervisory practices without turning soft law into de facto hard law. A proportionate and evidence-based approach remains key to ensuring that activities such as factoring and other specialised credit services continue to operate within the regulated financial perimeter, thereby avoiding unintended distortions. Simplification, therefore, should aim at fostering consistency, proportionality and competitiveness, thereby supporting both the soundness of the financial system and the development of a more integrated and resilient European market. In this perspective, a possible improvement would be to better reflect the new CRR3 definition of credit obligation in the rules on past-due counting, by considering the effective contractual maturity and acknowledging that, in non-recourse factoring, the credit relationship exists between the factor and the assignor, not with the debtor of the receivable (even though the latter represents the obligor).

3.3.3 Quantitative Estimate of the RWA Impact

This section aims to translate into quantitative terms the capital implications arising from the current EBA framework on the past-due classification of exposures to the Public Administration (PA), in light of the empirical evidence presented in the preceding paragraphs. While Sections 3.3.1 and 3.3.2 examined, respectively, the regulatory framework and its economic interpretation, the focus here is on measuring the impact that the 180-day threshold produces in terms of increases in Risk-Weighted Assets (RWA), regulatory capital absorption, and direct economic value loss for operators.

Quantifying these effects is essential to assess the alignment between regulatory risk and actual economic risk. In the PA factoring segment, payment delays beyond 180 days often stem from procedural factors or administrative constraints rather than from any deterioration in the debtor’s solvency. The automatic application of the regulatory threshold therefore leads to a default classification that may significantly overstate the true level of risk.

To measure the extent of this overestimation and its impact on capital absorption, a counterfactual exercise was developed based on two scenarios. Scenario A, corresponding to the current regulatory framework, assumes that all positions with delays exceeding 180 days are classified as past due, regardless of the underlying reasons for the delay. Scenario B, by contrast, provides for the suspension of the past-due count for delays attributable exclusively to bureaucratic or procedural steps. In this latter case, the share of exposures classified as past due is brought back to the historical averages observed over the period 2015–2023, which are more consistent with the actual level of risk.

<u>Methodology and Calculation Assumptions</u>

The empirical analysis was conducted using a counterfactual approach designed to quantify the difference in capital absorption between the current EBA framework for past-due classification of exposures to the Public Administration and an alternative scenario in which administrative delays do not automatically trigger default. This approach makes it possible to isolate the pure regulatory impact while keeping all other operational and risk variables constant.

Before describing the analytical scenarios, it is useful to clarify the distinction between the two loss components considered in the study:

- direct loss represents the immediate impact on economic value arising from the higher regulatory capital absorption required under the current prudential framework;
- indirect loss captures the second-order effect, linked to the reduced ability of the intermediary to deploy that capital in alternative productive or profitable activities, thereby generating an opportunity cost over the medium term.

Both components are estimated in a manner consistent with the Economic Value Added (EVA) logic proposed by Fiordelisi (2011), so as to quantify the value destroyed as a result of the regulatory framework.

The scope of the analysis includes the entire portfolio of receivables from the Public Administration held by the operators in the Assifact sample, amounting to €7,156 million at the end of 2024.

The analysis is structured into two scenarios:

- Scenario A (current regulatory framework): full application of the 180-day time threshold set by the EBA Guidelines for the past-due classification of exposures to the Public Administration. In this scenario, all positions exceeding 180 days past due are classified as non-performing, regardless of the underlying cause of the delay. The share of the portfolio classified as past due observed in 2024 is 30.61%.

- Scenario B (proposed scenario): application of a rule suspending the counting of days past due in cases where the delay is attributable exclusively to procedural or administrative reasons and not to any deterioration in the debtor’s repayment capacity. The share of the portfolio classified as past due is reduced to 5%, corresponding to the historical average observed over the period 2015–2023, when the absence of strict threshold enforcement did not produce excessive classifications.

In both scenarios, the calculation of Risk-Weighted Assets (RWA) is carried out in accordance with the Standardised Approach under Regulation (EU) No. 575/2013 (CRR), applying the following parameters:

- a 0% risk weight for performing exposures to central governments, provided that they are denominated and funded in the national currency of the counterparty;
- a 20% risk weight for performing exposures to local governments;
- a 100% risk weight for exposures to healthcare entities and other public-sector bodies that do not meet the conditions for preferential risk weighting;
- a 150% risk weight for exposures classified as non-performing (unless value adjustments greater than 20% are in place, in which case a 100% risk weight applies);
- a minimum Common Equity Tier 1 (CET1) capital requirement equal to 8% of RWA[32]. In any case, the capital requirement used in the subsequent simulation does not quantitatively affect the identification of the direct and indirect loss.

[32]As is well known, by way of derogation from Article 92(1) CRR, financial intermediaries that do not take deposits from the public are required to comply at all times with the following own-funds requirements: (a) a Common Equity Tier 1 capital ratio of 4.5%; and (b) a total capital ratio of 6% (Bank of Italy Circular No. 288 of 3 April 2015, Title IV, Chapter 4). The analysis presented here does not take this regime into account, as many intermediaries that operate significantly in the Public Administration segment are specialised banks and are

In this framework, the additional regulatory capital absorbed in Scenario A compared with Scenario B is interpreted as capital immobilised in a way that does not generate a return commensurate with the opportunity cost for shareholders. A target return on equity (ROE target) of 10% is assumed, consistent with long-term averages for specialised financial intermediaries. The annual value loss is calculated by multiplying the additional capital by the ROE target, while the net present value of the multi-year loss is estimated by discounting the annual flows at a rate of 5%, in line with the sector's weighted average cost of capital (WACC).

Alongside this direct measure, an estimate of the lost lending capacity is provided, calculated as:

$$Lost\ capacity\ = \frac{Additional\ Absorbed\ Capital}{Minimum\ CET1\ Requirement}$$

which represents, all else being equal in terms of risk weighting, the potential volume of new lending that the additional capital could have supported in the absence of the regulatory constraint.

Lastly, indirect value destruction is considered. This arises from the forgone generation of margins on the unused lending capacity, the potential deterioration of profitability indicators (ROE, RAROC), the increase in the cost of capital, and possible erosion of market share in favour of alternative instruments. For the quantitative estimate of this indirect component, an average intermediation margin of 1.5% on new transactions is assumed, applied to the lost lending capacity. This value is consistent with OSSFIN data for 2024, which report an intermediation margin on total assets of 1.56%, and therefore constitutes a prudential proxy grounded in market evidence.

This methodology makes it possible not only to quantify the immediate capital impact of the current regulatory framework, but also to assess the overall economic cost, both direct and indirect, expressed in terms of forgone and unrealised margins that could otherwise have been generated. In doing so, the

therefore subject to the 8% requirement. In any case, applying a different capital ratio uniformly would not alter the results of the simulation.

analysis provides a more comprehensive measure of the value destruction induced by the existing prudential regime, enabling an objective comparison between the two regulatory approaches and offering quantitative support for the assessment of potential regulatory revisions.

Results

Applying the model to the sample data makes it possible to clearly highlight the capital and economic consequences arising from the current EBA framework on past-due classification for exposures to the Public Administration. At the end of 2024, the total portfolio of PA receivables held by the operators in the sample amounted to €7,156 million. Under the current regulatory scenario (Scenario A), the share of positions with arrears exceeding 180 days is equal to 30.61% of the total, corresponding to non-performing exposures amounting to €2,189.9 million.

Under Article 127 CRR, non-performing exposures are risk-weighted at 150%, while performing exposures have an average risk weight of 36.2%, reflecting the composition of the PA portfolio (central governments 0%, local governments 20%, healthcare entities and other public bodies 100%). Accordingly, the RWAs in Scenario A are calculated as follows:

$$RWA_A = €4{,}966.1\ mn \times 36.2\% + €2{,}189.9\ mn \times 150\% \ = €5{,}082.6\ mn$$

The minimum capital requirement of 8% of RWA is taken as the regulatory reference parameter, while acknowledging that the actual percentage may vary across intermediaries. A lower requirement, however, would not affect the results of the simulations. Applying the minimum CET1 capital requirement of 8% therefore results in regulatory capital absorbed amounting to €406.6 million:

$$CET1_A = €5{,}082.6\ mn \times 0.08 = €406.6\ mn$$

In the second scenario (Scenario B), a rule is applied whereby the counting of days past due is suspended in cases where the delay is attributable exclusively to procedural or administrative factors and not to any deterioration in the debtor's repayment capacity. In this context, the share of past-due positions falls to 5% of the portfolio. This value is not based on an arbitrary assumption, but derives from the analysis of the sample's historical data over the period 2015–2023: in those years, in the absence of strict enforcement of the 180-day threshold, the share of past-due positions towards the Public Administration fluctuated on average between 4.5% and 5.5%. The 5% level therefore represents a prudent estimate consistent with market conditions prior to the entry into force of the EBA rules. Applying this share to the 2024 portfolio results in non-performing exposures of €357.8 million, with RWA amounting to €2,997.6 million and CET1 capital absorbed of €239.8 million:

$$RWA_B = €7{,}798.2 \text{ mn} \times 36.2\% + €357.8 \text{ mn} \times 150\% = €2{,}997.6 \text{ mn}$$

$$CET1_B = €2{,}997.6 \text{ mn} \times 0.08 = €239.8 \text{ mn}$$

The comparison between the two scenarios highlights an excess of immobilised capital under the current framework amounting to €166.8 million, calculated as the difference between the CET1 capital absorbed in Scenario A (€406.6 million) and in Scenario B (€239.8 million). This capital, tied up for prudential purposes, does not generate any commensurate benefit in terms of effective risk reduction for the reasons outlined above, and therefore represents a form of regulatory inefficiency. The table below summarises the main results:

Scenario	**Total Exposures PA (€ mn)**	**Past Due Share (%)**	**Past Due Exposures (€ mn)**	**RWA (€ mn)**	**Absorbed CET1 Capital (€ mn)**
Scenario A (current)	7,156	30.61	2,189.9	5,082.6	406.6
Scenario B (proposed)	7,156	5	357.8	2,997.6	239.8

From the perspective of direct value destruction, the additional immobilised capital can be interpreted as a resource which, if released, would generate a return at least equal to the sector's target ROE. Assuming a target ROE of 10%, the annual opportunity cost is estimated at €16.68 million:

$$\text{Annual direct loss} = €166.80 \text{ mn} \times 0.10 = €16.68 \text{ mn}$$

In addition to this component, there is a significant indirect effect linked to the lost lending capacity. The €166.8 million additional capital absorbed could have supported approximately €2.08 billion in new lending:

$$\text{Lost capacity} = \frac{€166.8\ \text{mn}}{0.08} \approx €2{,}085.0\ \text{mn}$$

This lost capacity represents potential lending that the sector is unable to make available to the real economy due to the current regulatory framework. Assuming an average net operating income of 1.5% on new transactions, the annual loss of intermediation revenues is estimated at a further €31.28 million:

$$\text{Annual indirect loss} = €2{,}085.0\ \text{mn} \times 0.015 \approx €31.28\ \text{mn}$$

The sum of the direct and indirect loss brings the estimate of the total annual value destruction to approximately €47.96 million. This figure does not take into account additional second-order effects, such as the reduction in overall ROE due to the increase in RWA without a proportional increase in revenues, the rise in the cost of capital, the potential passing on of the higher regulatory burden to clients with a consequent loss of competitiveness, and the erosion of market share in favour of alternative financing instruments.

In summary, the counterfactual analysis shows that a targeted amendment of the EBA rules on the past-due classification of exposures to the Public Administration would not only significantly reduce the sector's capital absorption, but would also free up substantial resources to reinvest in new lending activity, with tangible benefits for both the profitability of operators and the ability of factoring to support the real economy.

3.3.4 Systemic Impacts of Regulatory Misalignments

The quantitative results show that the current EBA framework on the past-due classification of exposures to the Public Administration generates a significant level of capital absorption that is not directly justified by any increase in the underlying credit risk. This mechanism does not affect only intermediaries: it has a direct impact on client firms, particularly SMEs, by reducing the liquidity available to finance working capital and increasing uncertainty in financial planning, even outside the PA segment.

The excess of €166.8 million in immobilised CET1 capital compared with the alternative scenario (B) translates into a potential contraction in lending capacity estimated at approximately €2.085 billion, with effects that can slow down investment, growth, and the operational continuity of supplier firms.

From a microeconomic perspective, this constraint affects three key dimensions of the management of specialised factoring intermediaries:

- a reduction in overall profitability, deriving both from the lack of return on the capital that is tied up and from the loss of potential margins associated with new transactions that cannot be originated;
- a deterioration in the efficiency profile of resource allocation, measurable through indicators such as RAROC, which is penalised by an increase in RWA in the absence of a corresponding rise in operating revenues;
- an increase in the opportunity cost of maintaining exposures to the Public Administration, which may induce a reallocation towards private-sector clients or segments with higher turnover, with implications for the sector's role in supporting the productive system.

At the macroeconomic level, the contraction in lending capacity implies a reduced contribution of factoring to the financing of firms supplying the Public Administration, particularly SMEs, which most frequently rely on this instrument to offset payment delays. The €2.085 billion in potential new liquidity that is not injected into the economic system may generate cumulative effects on system-wide liquidity, on the financial resilience of firms, and on the economy's overall ability to absorb shocks in payment times.

The analysis therefore suggests that, in cases where Public Administration payment delays stem from administrative or procedural causes rather than from any actual deterioration in creditworthiness, the application of the 180-day threshold should reflect this distinction. A more consistent and proportionate use of this parameter would not amount to a relaxation of prudential standards, but rather to a realignment of the regulatory representation with the underlying risk, reducing

distortions and fostering greater comparability with other financing instruments.
The analysis conducted shows that the misalignment between the regulatory framework and the actual risk profile of exposures towards the Public Administration produces effects that go beyond the dimension of the individual operator, assuming systemic relevance for the factoring sector as a whole. The automatic classification as past due of positions whose delay is attributable to administrative or procedural causes generates an artificial increase in RWA and, consequently, an additional absorption of capital. This phenomenon reduces the sector's capacity to grant new credit by an estimated €2.085 billion, with potentially significant repercussions on the liquidity of PA suppliers, particularly smaller firms, which rely more heavily on factoring to finance their operating cycle.

From a competitiveness standpoint, the presence of a capital constraint that is disproportionate to the actual risk distorts the level playing field vis-à-vis other forms of financing that are not subject to comparable rigidity in classification. Factoring providers that concentrate a significant share of their activity on PA-related business are structurally penalised in terms of profitability, cost of capital, and growth capacity, with the risk of a gradual withdrawal from this segment of the market.

On the credit-supply side, the capital constraint and the resulting loss of lending capacity do not translate into greater resilience of the financial system, but rather into a reduction in the liquidity available to a segment, PA suppliers, already characterised by structurally longer average payment times than the European average. This contraction may amplify liquidity pressures along supply chains, with cascading effects on the productive fabric and employment.

Finally, in terms of business model sustainability, maintaining a regulatory framework that lacks proportionality risks compressing operating margins and reducing the economic viability of operating in the PA-factoring segment, prompting a reallocation of resources toward areas less burdened by capital requirements. If sustained over time, this dynamic may lead to a structural contraction in the supply of factoring services to the Public Administration, resulting in a loss of know-how, reduced competition, and a deterioration in economic conditions for client firms.

In summary, the systemic effects of regulatory misalignments manifest along three interconnected dimensions, i.e. operator competitiveness, credit availability, and business-model sustainability, and point to the need for a realignment of EBA rules with actual risk, in order to preserve the contribution of PA-factoring to the stability and growth of the real economy.

The empirical evidence and subsequent economic interpretation show that the current EBA framework for the classification of past-due exposures to the Public Administration generates a significant capital impact that is not proportionate to the underlying credit risk. The rigidity of the 180-day threshold, applied uniformly to all positions, induces an artificial increase in RWAs and capital absorption, estimated at €166.8 million for the analysed sample, together with a resulting loss of credit-granting capacity of €2.085 billion. This constraint does not produce any tangible benefits in terms of financial stability; instead, it generates distortive effects both at the microeconomic level, such as reduced profitability, deterioration of capital-efficiency indicators, and incentives to reallocate toward less penalised segments, and at the macroeconomic level, by reducing the liquidity available to firms supplying the PA and, ultimately, the ability of the factoring industry to support the real economy.

From this perspective, the need for a targeted regulatory intervention becomes clear. In line with the considerations submitted during the consultation on the new EBA Guidelines, the introduction of a mechanism to suspend the counting of days past due when delays are attributable solely to procedural or administrative reasons would be appropriate. Such an adjustment would not weaken prudential safeguards, as it would leave unchanged the threshold applicable to cases of actual deterioration in creditworthiness, but it would eliminate a misalignment that currently penalises the sector without enhancing the overall stability of the system.

It is also recommended that any amendment be accompanied by supervisory monitoring tools capable of distinguishing, for oversight purposes, between administrative delays and delays due to insolvency, thereby ensuring transparency and consistency of reported data. At the same time, it would be desirable to establish a structured dialogue between operators, industry associations and supervisory authorities, in order to share empirical evidence, international experiences and best practices, and to ensure an application of the rules that is consistent with the principle of proportionality and with the operational specificities of factoring.

In conclusion, realigning the EBA framework to the actual risk profile of exposures to the Public Administration represents not only a requirement of competitive fairness, but also a strategic lever to strengthen the ability of factoring to fulfil its role in supporting firms' liquidity, thereby contributing more effectively to the growth and stability of the real economy.

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Appendix 1.

Companies included in the samples considered

COMPANY	ASSIFACT SAMPLE	OSSFIN SAMPLE
AOSTA FACTOR	X	X
BANCA CF+	X	
BANCA IFIS	X	X
BANCA MONTE DEI PASCHI DI SIENA[33]	X	X
BANCA PROGETTO	X	
BANCA SISTEMA	X	X
BANCO DI DESIO E DELLA BRIANZA	X	
BARCLAYS BANK	X	
BCC FACTORING	X	X
BFF BANK	X	X
BPER FACTOR	X	X
BURGO FACTOR	X	
CLESSIDRA FACTORING	X	
CREDEMFACTOR	X	X
CRÉDIT AGRICOLE FACTORING	X	
EUROFACTOR		X
FACTORCOOP	X	X
FACTORIT	X	X
FERCREDIT	X	X
FIDIS	X	X
GENERALFINANCE	X	X
GUBER BANCA	X	
IBM Italia Servizi Finanziari		X
IFITALIA	X	X
ILLIMITY BANK	X	
INTESA SANPAOLO[34]	X	
ISTITUTO PER IL CREDITO SPORTIVO E CULTURALE	X	
MBFACTA	X	X
MCC FACTOR	X	
SACE FCT	X	X
SERFACTORING		X
SG FACTORING	X	X
UNICREDIT FACTORING	X	X

[33] Universal bank that absorbed MPS Leasing & Factor
[34] Universal bank that absorbed UBI Factor

Appendix 2.

Summary Table
Proposed amendments to the EBA "Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013" of 2016 (EBA/GL/2016/07), as set out in the 2025 document "Draft Guidelines amending the Guidelines on the application of the definition of default under Article 178 of Regulation (EU) No 575/2013" (EBA/CP/2025/09)

# Amendment[35]	2016 Guidelines (EBA/GL/2016/07)	Draft 2025 Guidelines (EBA/CP /2025/09)	Comments
11	Par. 23 d) (d) in the specific case of factoring arrangements where the purchased receivables are recorded on the balance sheet of the institution and the materiality threshold set by the competent authority in accordance with point (d) of Article 178(2) of Regulation (EU) No 575/2013 is breached but none of the receivables to the obligor is past due more than 30 days.	Par. 23 d) (d) in the specific case of factoring arrangements where the purchased receivables are recorded on the balance sheet of the institution and the materiality threshold set by the competent au-thority in accordance with point (d) of Article 178(2) of Regulation (EU) No 575/2013 is breached but none of the receivables to the obligor is past due more than 90 days.	The specific treatment of exposures to public administrations (180 days past due) is not subject to amendment and is addressed in paragraphs 25 and 26 of the 2016 Guidelines.
12	---	In paragraph 23, point e and f are added as follows: (e) Where the obligor has not been adequately informed about the cession of the receivable by the factor's client and the institution has evidence that the payment for the receivable has been made to the client. (f) In the specific case of undisclosed factoring arrangements, where	Aspects partly carried over from the previous paragraphs 31 and 32. The new point (f) includes a reference to the 90 days past due, which was not present in the previous version.

[35]Reference to the points set out in the 2025 Draft Guidelines, p. 32

# Amendment[35]	2016 Guidelines (EBA/GL/2016/07)	Draft 2025 Guidelines (EBA/CP /2025/09)	Comments
		the payment was made by the obligor to the client before the payment was 90 days past due and the transfer of this pay-ment from the client to the factor occurred after the 90 days.	
13	Par. 31. Where the obligor has not been adequately informed about the cession of the receivable by the factor's client and the institution has evidence that the payment for the receivable has been made to the client, the institution should not consider the receivable to be past due. Where the obligor has been adequately informed about the cession of the receivable but has nevertheless made the payment to the client, the institution should continue counting the days past due according to the conditions of the receivable.	Paragraph 31 is replaced by the following: 31. Where the obligor has been adequately informed about the cession of the receivable but has nevertheless made the payment to the client, the institution should continue counting the days past due according to the conditions of the receivable	The reference to non-notification factoring has been removed and moved to paragraph 23 (technical default). The second paragraph has been retained.
14	Par. 32. In the specific case of undisclosed factoring arrangements, where the obligors are not informed about the cession of the receivables but the purchased receivables are recognised on the balance sheet of the factor, the counting of days past due should commence from the moment agreed with the client when the payments made by the obligors should be transferred from the client to the factor.	Paragraph 32 has been deleted and replaced by 23 (f)	
15	Par. 39. Where the institution treats an exposure as credit-	Point (a) of paragraph 39 has been deleted to align	

# Amendment[35]	2016 Guidelines (EBA/GL/2016/07)	Draft 2025 Guidelines (EBA/CP /2025/09)	Comments
	impaired under IFRS 9, i.e. assigns it to Stage 3 as defined in IFRS 9 Financial Instruments, published by the IASB in July 2014, such exposure should be considered defaulted, except where the exposure has been considered credit-impaired due to the delay in payment and either or both of the following conditions are met: (a) the competent authorities have replaced the 90 days past due with 180 days past due in accordance with point (b) of Article 178(1) of Regulation EU (No) 575/2013 and this longer period is not used for the purpose of recognition of credit-impairment;	with the CRR	

Annex. The Assignment of Trade Receivables in Local Government Entities (Marcello Degni[36] and Francesco Bianchi[37])

The phenomenon of receivables assignment among local authorities, particularly within the municipal sector, which represents the largest share of the aggregate, is concentrated primarily among entities experiencing financial distress. This circumstance tends to introduce a pathological bias[38] in the analysis of the phenomenon, potentially obscuring a broader and more physiologically beneficial use of the instrument to accelerate payment mechanisms, with positive spillover effects for the system as a whole.

Of the 7,896 municipalities in existence as of 31 December 2024, those in a situation of outright financial distress represent only a very small share (6.1%). The sector is therefore broadly solid, although, as will be shown below, the aggregate figure masks significant territorial and size-based heterogeneity. Overall, it may be said that the roughly 500 municipalities in acute crisis represent only the tip of an iceberg which, if additional indicators are taken into account (such as a credit impairment provision exceeding a given threshold), could double to around 12%. Thus, in nine cases out of ten, the entities concerned exhibit a low risk profile.

Moreover, even municipalities with pronounced financial difficulties do, albeit sometimes after lengthy procedures, ultimately honour their debts (and the associated charges). Indeed, the current legal framework, supported by extensive case law (see below), reveals a marked asymmetry in favour of the creditor. Accordingly, from a creditworthiness perspective, the municipal sector is a reliable debtor, and delays in payment (which have declined significantly in recent years) are primarily linked to the breadth of the functions assigned to local authorities, which exponentially increase the complexity of the processes they manage, with consequences for the final stage of the expenditure cycle. These processes can be streamlined, but cannot be compressed beyond a certain limit.

[36] Cà Foscari University, Venice, Italy
[37] Milan Bicocca University, Italy
[38] See Assifact Circular 03/2023, Example 18.

To frame the issue, it is therefore necessary to focus on the expenditure cycle and on the dynamics of financial distress, which is where the assignment of receivables is most concentrated.

1. The Expenditure Cycle of Municipalities

The factors that influence the expenditure cycle of municipalities are numerous. The most significant, as noted, derives from the multiplicity of processes that characterise the administrative functioning of proximity-based entities (multifactoriality). As general-purpose public authorities, municipalities perform a very wide range of functions. In addition to traditional responsibilities, recurring emergencies continually generate new tasks, which accumulate on top of those already in place. The regulatory framework is constantly evolving under the often unsystematic action of the legislator, who intervenes without long-term planning, continually altering obligations and procedures.

A second structural factor is the extreme fragmentation of the municipal system, coupled with a regulatory (and compliance) framework that tends to be largely uniform. 69.9% of Italian municipalities (5,221 out of 7,896) have fewer than 5,000 inhabitants. In entities with very small staff complements (sometimes only a few employees), and often without managerial positions, it is particularly challenging to carry out in a timely (and error-free) manner the complex procedures that precede the expenditure cycle. In such cases, the appropriate response lies in the joint management of functions, which can lead to genuine administrative mergers. Where such arrangements have been implemented (for example, the Unions of Municipalities in Emilia-Romagna), beneficial effects have emerged, including reductions in payment delays.

A third significant factor is staffing. Recruitment freezes imposed over many years have reduced municipal workforce numbers by more than 20% in absolute terms (5.76 employees per 1,000 inhabitants). Constrained remuneration policies have undermined the attractiveness of local government employment, particularly for the professional profiles most needed. In many regions, especially in the North, public recruitment competitions often attract few or no candidates. Low salaries combined with high responsibilities are not appealing to younger professionals.

The result is concerning: a rising average age (51 years, with much higher peaks), resistance to innovation (including digital transformation), and a shortage of strategic roles (finance officers, public works managers, tax specialists).
These structural factors have a direct impact on the expenditure cycle, slowing it down.
In municipalities, the expenditure procedure follows the ordered sequence of commitment, verification/liquidation, ordering and payment, in accordance with the provisions of the Consolidated Law on Local Authorities (TUEL) and the harmonised accounting framework[39]. The *impegno* (commitment) represents the accounting translation of an obligation that has already been legally perfected, with the identification of the amount, the creditor, the underlying cause and the due date. It is finalised through the *visto di regolarità contabile*, which certifies the availability of the corresponding budgetary coverage. Pre-commitments and budget savings operate according to statutory rules and, where expiry of authorisations or violations of commitment constraints occur, the obligation cannot be considered enforceable.
Under the *enhanced accrual principle* (*principio della competenza finanziaria potenziata*), expenditure must be recognised in the fiscal year in which the obligation falls due, thereby aligning the accounting treatment with the moment in which the obligation becomes payable[40].
The *liquidazione* (verification and settlement phase) confirms, on the basis of supporting documentation, that the performance has been duly carried out and determines the exact and payable amount, within the limits of the existing *impegno*. Consequently, until the documentary, technical, accounting and tax checks have been successfully completed, the credit cannot be considered enforceable.
The liquidation measure is then transmitted to the financial department for administrative and accounting controls, including those relating to traceability and tax and social security compliance. External checks required by law (such as the

[39] Artt. 183–186 D.Lgs. 18 August 2000, n. 267 (TUEL).
[40] D.Lgs. 23 June 2011, n. 118, Annex 4/2 (*principio di competenza finanziaria potenziata*).

verification under Article 48-bis) may legitimately suspend payment until the relevant impediment has been removed[41].

Once the liquidation phase has been completed, the ordering phase authorises the issuance of the payment order within the limits of available cash allocations and arranges for its transmission to the treasury. Even where the credit is certain, liquid and due, a lack of cash availability results in a deferral of payment. The treasurer executes payments in the cases provided for by law, with subsequent regularisation by the entity. It follows that the actual maturity date of the credit depends on the completion of the commitment (with the relevant budgetary coverage), the favourable conclusion of the liquidation phase, and the absence of legal or financial impediments; delays connected to these conditions do not, in themselves, constitute a breach by the administration. The phase of expenditure that is most affected by these dynamics is the liquidation phase[42]. The stylised features of this segment of the expenditure cycle involve the transmission of the payment request from the accounting department, where it is first received, recorded in the general ledger, and verified for budgetary coverage, to the operational unit that originally incurred the expenditure and must verify the correspondence between the request and the supply of goods or services. The liquidation (liquidazione) is an administrative act (a *determina*) which presupposes the completion of this verification. In many cases, due to the multifactorial nature of municipal functions, such verification may be particularly complex, for instance, the assessment of socio-healthcare services performed by an assigned cooperative; the evaluation of meal quality in a school catering contract; or the verification of the number of scheduled journeys performed by a school transportation provider. Only the standardisation of processes and the

[41] Art. 48-bis D.P.R. 29 September 1973, n. 602; L. 13 August 2010, n. 136 (tracciabilità dei flussi); D.Lgs. 127/2015 (fatturazione elettronica).

[42] The First Civil Division of the Court of Cassation, in its recent Order of 4 January 2023, No. 11, examined the distinction between default interest, which is owed in the event of non-performance, and compensatory interest, which accrues in the absence of default (Article 1282 of the Civil Code). The Order aligns with the position according to which public administrations benefit from more favourable treatment in the application of Article 1282 of the Civil Code. In particular, credits owed by public administrations become liquid and payable only once the corresponding payment mandate (titolo di spesa) has been issued; accordingly, such credits do not accrue compensatory interest until that act is adopted. However, where the public administration has culpably delayed the procedures required to issue the payment mandate and thus render the credit liquid, the creditor may obtain payment of default interest. The procedure for issuing the payment mandate falls within the liquidation phase and therefore concerns the liquidity of the credit rather than its enforceability. The “culpable delay in completing the liquidation procedure” must thus result from an intentionally dilatory or evasive conduct by the entity, and not from objective difficulties inherent in the process.

implementation of robust management control systems can simplify this phase, which remains difficult to digitalise (perhaps only developments in artificial intelligence will be able to accelerate it significantly).

In practice, liquidation in municipalities unfolds through an operational sequence that, while simple in its abstract structure, is characterised by numerous steps prone to delay. From the electronic invoice registration and the formal consistency checks against the relevant order or contract (references, CIG and, where applicable, CUP; correct identification of the budget item and timeline), the process moves to the substantive verification of performance through certificates of proper execution, delivery reports, or progress statements. This is followed by the determination of the amount due, including the application of any penalties, adjustments, and price revisions, as well as the accounting of contractual retentions and compensations. Only after these verifications has been successfully completed does the proposing office prepare and issue the *determina di liquidazione*, complete with supporting documentation, and transmit it to the financial service for administrative-accounting controls and for the activation of the verifications required for payment (tax and VAT compliance, contribution regularity, and flow traceability requirements).

Typical bottlenecks recur in the imperfect reconciliation between documents (orders, delivery notes, progress reports, minutes) and the content of the invoice; in incomplete or inconsistent technical attestations delaying the certification of proper execution; in the need to define the compensation due where price revisions or adjustments are still pending; in the requirement to issue accounting or tax corrections (credit notes, incorrect tax treatment, outdated SIOPE or supplier codes); and in external verifications which, when activated with an interlocutory outcome, legitimately suspend the effectiveness of the act until the obstacle is resolved. Added to these are organisational factors typical of small municipalities, such as staff turnover, the concentration of responsibilities on a limited number of individuals, and non-integrated information systems, which, although they do not affect the substantive legitimacy of the claim, extend the time required to complete the phase and transform what is, in legal terms, a non-yet-payable credit into an administrative delay.

The potential obstacles affecting payment timelines are not limited to the liquidation phase. Already at the stage of commitment (impegno), there are typical causes of deferral or non-enforceability, such as: failure or delay in obtaining the accounting regularity visa certifying budgetary coverage; expiration of preliminary commitments (*prenotazioni*) due to failure to perfect the underlying obligation within the financial year; breaches of expenditure commitment constraints on current spending; and, more generally, incompatibility between the payment schedule and available cash appropriations. Each of these circumstances can cause delays that postpone the initiation of subsequent phases of the expenditure cycle[43].

Once the commitment phase has been completed, the ordering (ordinazione) stage may likewise encounter non-negligible obstacles. Payment orders are subject to the availability of cash appropriations and to the outcome of internal controls on administrative and accounting legitimacy and regularity. Moreover, the absence or inaccuracy of essential elements of the payment warrant (such as the beneficiary, the underlying justification, references to the authorising act, or payment traceability data) prevents its issuance or requires its return for correction and regularisation[44].

Finally, at the treasury stage, further checks and constraints may legitimately suspend disbursement even where the credit has already been liquidated. These include, for example, verification of amounts assigned to enforcement proceedings, the existence of garnishment or seizure orders notified to the treasurer, as well as the presence of balances held in restricted cash accounts that cannot be used for expenditures lacking the corresponding earmarking[45].

Cash constraints may also arise from delays in the transfer of resources from another tier of government. A typical example is that of a public works project undertaken by a municipality on the basis of regional funding. At the time of payment, tied to the work progress certificates, the municipality is often required to

[43] Art. 183, D.Lgs. 18 August 2000, n. 267 (TUEL); D.Lgs. 23 June 2011, n. 118, Annex 4/2 (competenza finanziaria potenziata, FPV e cassa vincolata).

[44] Art. 185, paragraphs 1–3, TUEL; L. 13 August 2010, n. 136 (tracciabilità); D.Lgs. 127/2015 (fatturazione elettronica)

[45] Art. 48-bis D.P.R. 29 September 1973, n. 602 (sospensione pagamenti); D.Lgs. 118/2011, Annex 4/2 (cassa vincolata)

advance the necessary resources pending the completion of the administrative procedures required for the release of funds by the regional authority.

Process simplification and digitalisation can reduce the duration of the phases of the expenditure cycle. A significant improvement occurred with the introduction of mandatory electronic invoicing (which, for local authorities, dates to 31 March 2015, that is, just over ten years ago). Previously, the liquidation phase was preceded by the daily collection of a more or less voluminous batch of paper invoices from the post office. These were then recorded in the municipality’s protocol register and subsequently transmitted to the accounting office.

Nonetheless, the streamlining process can be improved but not compressed beyond a certain threshold, which is determined by the need to track, account for, and control the use of public funds. A “long” expenditure cycle therefore does not indicate a heightened risk of non-payment, but rather reflects structural characteristics inherent in the public nature of the entities involved, which cannot, and in some respects should not, be compressed.

In this context, a model of digitalisation focused on process outcomes rather than on the mere dematerialisation of documents, supported by explainable artificial intelligence tools, can significantly facilitate the traversal of the expenditure cycle. Interoperable information systems, capable of reconstructing the chain from order to contract and invoice, enable automated verification of essential consistencies and flag discrepancies requiring further investigation, thereby reducing formal errors and requests for resubmission. Data extraction and reconciliation modules can produce pre-populated liquidation drafts and record, with time-stamps, the procedural milestones relevant to enforceability (such as disputes, inspections, price revisions, and external checks), thus preventing the classification as “overdue” of claims that are not yet legally enforceable.

Anomaly detection algorithms, trained on homogeneous expenditure categories, could support the responsible officer in promptly identifying inconsistencies and estimating the expected time for completion, thereby enabling more accurate cash-flow planning and earlier activation of any necessary organisational adjustments. Automating repetitive compliance tasks (such as tax and social security checks, payment traceability controls, and accounting reconciliations) would free up administrative capacity for substantive evaluations and reduce variability linked to staff turnover.

The key enabling condition is not technological but organizational: the standardisation of procedures and the definition of clear, codified workflows would provide more efficient and transparent outcomes. In this context, technology would act as a support tool, not a substitute, for verification activities, helping to reduce the typical bottlenecks identified (documentary irregularities, indeterminate amounts due, delays in technical attestations, suspensions linked to external checks) and, above all, making the timing of the procedure visible and manageable. Consequently, what remains “long” is justified and traceable, while what is reducible is effectively reduced.

2. Financial Distress in Municipalities

The legal framework for managing the financial distress of municipalities is set out in Title VIII of Part II of the Consolidated Law on Local Authorities (TUEL). Since 2000, this framework has been subject to multiple revisions, often enacted in a fragmented and non-systematic manner. More recently (in 2021 and 2022), significant innovations have been introduced, but only with respect to provincial capital municipalities; these innovations have not yet been incorporated into the Consolidated Law. These new provisions[46], summarised under the framework commonly referred to as the “Pacts with the Government”, aim, albeit in a non-systematic manner, to address and overcome the critical issues that have emerged in the application of the TUEL. The initial implementation of these measures has shown encouraging results even in highly complex situations. Their impact in accelerating payment processes could be significant, although, as noted, even within this subset of municipalities the underlying credit risk remains low.

A quantitative overview of the financial distress affecting municipalities is useful in order to frame the phenomenon[47].

[46] These consist of two interrelated legislative measures: the first is contained in paragraphs 567 to 580 of Article 1 of Law No. 234 of 2021 (the 2022 Budget Law), and the second in Article 43 of Decree-Law No. 50/2022.

[47] The quantitative information is drawn from the Ca’ Foscari Database on Municipalities.

In 2024, there is a reduction in the overall number of financial distress procedures initiated (64, compared with 75 in 2023), although the figures remain significant and indicate an increase in cases of insolvency. Specifically, between 1 January and 31 December, 34 insolvency (*dissesto*) procedures were declared, the highest number recorded since 2020, and 30 procedures of multi-year financial rebalancing (*riequilibrio finanziario pluriennale*).
The number of municipalities involved is 60, due to three unsuccessful initiations and one withdrawal. Of these, 29 are “new entries,” that is, municipalities entering a formal crisis procedure for the first time, while the remaining 31 had already activated at least one such procedure in the past.
The regional distribution of cases in 2024 confirms a well-established pattern. In three regions, the phenomenon is structural, accounting for 46 of the 60 procedures and affecting the stability of the entire multi-level government system (15 cases in Calabria—9 insolvencies and 6 rebalancing plans; 13 cases in Campania—5 insolvencies and 8 rebalancing plans; and 18 cases in Sicily—15 insolvencies and 3 rebalancing plans). The remaining 14 cases are dispersed across the other regions.
The phenomenon resumed growth beginning in 2008 and more markedly from 2012 onwards. Since the 2001 constitutional reform of Title V, territorial entities have been prohibited from taking on debt to finance current expenditures. Under the previous system, the liabilities arising from insolvency procedures were covered by a state-funded loan (a mechanism still reflected in the text of the TUEL, enacted in 2000 and never updated in this respect).
The renewed increase in cases of declared financial distress is primarily attributable to two factors: (i) the global financial crisis of 2008, which led to a significant contraction of resources allocated to local authorities; and (ii) the introduction in 2015 of harmonised public-sector accounting rules (contabilità finanziaria armonizzata), which substantially reduced the scope for discretionary or evasive budgetary practices in determining financial equilibrium (in particular

through the introduction of the Accantonamento al Fondo Crediti di Dubbia Esigibilità - FCDE and the Fondo Pluriennale Vincolato - FPV [48]).

The increase in insolvency proceedings has been moderated, from 2012 onward, by the introduction of the multi-year financial rebalancing procedure under Decree-Law No. 174/2012, which many municipalities have activated in order to overcome financial distress without incurring the “stigma” associated with formal insolvency.

The territorial concentration of financial distress is pronounced. As of 31 December 2024, three southern regions, Campania, Calabria, and Sicily (the first two with ordinary statute and the third with special statute), account for 63.6% of all activated procedures. Significant values are also observed in Lazio (8.1%) and Puglia (6.2%). In the remaining regions, the phenomenon is considerably less widespread.

The degree of concentration becomes even clearer when considering the percentage of municipalities that have activated a crisis procedure. In Calabria, 54% of municipalities have been affected; in Sicily, 41%; and in Campania, 38%. Puglia, Molise, Basilicata, and Lazio also register percentages above 20%. In the other territories, the incidence is substantially lower (approximately 10% in Abruzzo and Umbria, and marginal in the remaining regions)[49].

Of particular relevance, in assessing the scale of the phenomenon, is the stock of procedures currently in progress. As of 31 December 2024, there were 487 active procedures (227 insolvency procedures and 260 multi-year financial rebalancing procedures), involving 485 municipalities.

Relative to the 7,896 municipalities in existence as of the same date, those in a condition of declared financial distress still represent, as noted, a very limited

[48] The first fund links the municipality’s capacity to undertake expenditure commitments to the resources actually collected on average over the previous five years, effectively neutralising the remaining portion of recognised revenues and thus preventing the assumption of commitments that would be unsupported by adequate financial coverage. The second fund, with respect to capital expenditure, requires that resources allocated for investment purposes be distributed over the time frame necessary for the implementation of the project, thereby preventing their use for different purposes.

[49] In addition to the territorial dimension, it is also significant to analyse the phenomenon from the perspective of municipal size. Among municipalities with fewer than 2,000 inhabitants, 7.8% have declared insolvency. The share rises to 10% for those between 2,000 and 5,000 inhabitants, and increases further to 11.2% for municipalities with between 5,000 and 10,000 inhabitants. The proportion continues to grow to 13.1% in the 10,000–20,000 population range. A notable jump occurs among municipalities with between 20,000 and 60,000 inhabitants, where the share of crisis cases reaches 17.5%, and remains high in the upper classes, at 16.3% and 16.7% respectively for municipalities with 60,000–250,000 inhabitants and those above that threshold.

share. The sector is therefore structurally solid, although the aggregate data show a marked territorial and dimensional concentration. For this reason, reforms aimed at addressing these vulnerabilities would be desirable, ideally through early-intervention mechanisms capable of detecting situations of distress before they become acute (predictive model).
In this context, factoring could play a constructive role in improving payment timeliness by injecting liquidity into the system under conditions that recognise the specific characteristics of the public sector (and, in particular, of local authorities).
Of the 227 active insolvency procedures, 93 (40.9%) have exceeded the five-year period of supervision associated with the requirement to re-establish balanced budgets. The 134 insolvency procedures opened in the last five-year period show a dynamic pattern: after reaching a minimum in 2021 (21 cases), a decrease likely attributable, like that of the previous year, to the effects of the pandemic, the number has risen again from the following year, reaching a peak in 2024[50].
As of 31 December 2024, the 260 active multi-year financial rebalancing procedures are, for nearly two-thirds, in the implementation phase (163) and, for the remaining one-third, under review (93), to which must be added 4 plans that were rejected (likely to result in insolvency for the municipalities concerned). In other words, 163 rebalancing plans have been approved by the Regional Sections of the Court of Auditors, and are currently in the implementation stage, with ongoing monitoring of the intermediate targets.
The territorial distribution broadly mirrors that observed for insolvency procedures, although in a less pronounced form.
Financial distress is more difficult to address when the administrative and socio-economic complexity of the municipality is higher, and this is directly correlated with population size (although other factors may also play a role, such as the territorial extension of the municipality, geographical features, population density, and the presence of significant socio-economic or environmental degradation)[51].

[50] The territorial distribution of this group of insolvency cases confirms, and indeed accentuates, the trend already identified: 57 cases are located in Sicily, which shows a particularly concerning acceleration (17 cases in 2023 and 15 in 2024); 29 cases are in Calabria; and 23 in Campania. In total, 81.3% of the insolvency procedures declared over the past five years have occurred in these three regions.
[51] Of the 485 municipalities that, as of 31 December 2024, are in a condition of declared financial distress, 52 have a population exceeding 30,000 inhabitants, a threshold that can conventionally be taken as indicative of

It is clear that any effort to reduce the existing stock of crisis situations can only be effective if the annual inflow of new cases, which, as noted, remains substantial, is simultaneously curbed. Accordingly, alongside these experimental measures, a reform of Title VIII of the TUEL is necessary. In recent years, converging policy orientations in this direction appear to have emerged.

3. The Regulatory Framework Governing Financial Distress

Title VIII of the TUEL can be systemically divided into two components: a preventive arm, consisting of the deficit indicators (Articles 243 and 244), and a corrective arm, which bifurcates into the procedures of multi-year financial rebalancing (Articles 243-bis to 243-sexies) and insolvency (Articles 244 to 268). Recent practice has widely demonstrated the inadequacy of all three regulatory sections in addressing the financial imbalances of local authorities, highlighting the need for substantial reform.

Within the portion of the TUEL governing financial distress in municipalities (Title VIII, Part II), a parameter-based mechanism is provided for the recognition of a serious and incontrovertible situation of imbalance, which automatically triggers corrective measures (Article 242). Specifically, if at least half of the indicators “identified in a specific table" attached to the financial statements of the “second-to-last financial year preceding the reference year” exceed established thresholds, restrictions aimed at restoring financial soundness are automatically enacted.

This approach presents three major shortcomings. First, the temporal lag underlying the calculation renders the mechanism untimely: in year *t*, the assessment is based on financial conditions from year *t–2* (thus, in 2025 the restrictive measures would be triggered on the basis of data from 2023). Second, the activation threshold, requiring that 50% of the indicators surpass the critical values, appears arbitrary and implicitly assumes equal weight for each indicator, irrespective of their relative significance. Third, the uniform application of the same thresholds to all municipalities does not take into account differences in size, administrative complexity, or territorial conditions.

greater administrative and financial complexity. These municipalities collectively account for 7.9 million residents and report total outstanding liabilities amounting to €8.1 billion.

The system has been modified over time, though without producing significant results. In its current form, it combines two objectives that do not fully coincide: the original purpose, namely the identification of a situation of “serious and incontrovertible” financial imbalance (triggering the activation of corrective measures), and a newer purpose, which aims to evaluate performance through a comparative assessment framework.

The limited effectiveness of the corrective measures, unable to prevent the emergence of more severe forms of financial distress, applies equally to the current system[52].

It may therefore be stated, in summary, that the current mechanism of deficit parameters, despite the amendments introduced over time, is not consistent with a predictive approach aimed at anticipating financial imbalances through the identification of early warning signals and the timely intervention of the multi-level governance system.

An innovative hypothesis, that can be substantively supported through quantitative analysis assisted by artificial intelligence (AI), is based on the construction of an evaluation framework consisting of a set of indicators designed to detect financial, economic and balance-sheet imbalances, calibrated to the dimensional characteristics of local authorities. This implies a differentiated regime for smaller municipalities, to be subject to simplified compliance requirements.

Such indicators could be used both to identify local authorities experiencing financial distress and to support their sound financial management. This aspect is particularly significant, as it would allow the assessment to be extended to all Italian municipalities. Within this framework, a broader role could be envisaged for factoring as a tool to support the management of public sector credit (and, in particular, of proximity-level authorities), leveraging its expertise in risk

[52] The main reason lies in the purely restrictive nature of the remedies provided under Article 242 of the TUEL. The provision requires oversight of staffing levels and new hires (by the ministerial commission), to be exercised *“primarily with regard to the verification of financial compatibility.”* However, situations frequently arise in practice in which the absence of a key professional figure—such as the head of financial services—constitutes a critical obstacle to restoring the municipality’s budgetary balance. In such cases, a strict focus solely on financial compatibility is counterproductive: the inability to fill strategic positions may actually hinder the recovery process rather than support it.

assessment, profiling of creditors and debtors, and knowledge of payment mechanisms.

The procedure for multi-annual financial rebalancing was introduced in 2012 as an intermediate measure between ordinary management and insolvency, effectively bifurcating the corrective arm. While insolvency is declared (irrevocably) when an authority is unable to pay its creditors and to provide essential services to the community, the rebalancing procedure may be activated by the authority (and potentially revoked ex officio within the 90-day period for approval of the plan) when structural imbalances exist that could lead to insolvency and cannot be resolved through ordinary means. In practice, however, the underlying reasons leading a municipality to activate one or the other procedure are often very similar. Many rebalancing procedures ultimately result in insolvency; very few reach completion. Moreover, the mechanism tends to be redundant in cases of mild distress (many northern municipalities close the procedure early) and ineffective in cases of severe structural imbalance (where the procedure frequently degenerates into insolvency during the preparatory phase or the rebalancing plans are rejected by the regional sections of the Court of Auditors).

The core limitation lies precisely in the bifurcation of the corrective arm, which diverts stakeholders' attention away from the primary objective, i.e. the structural recovery of the authority, and tends to shift the focus toward the procedural instrument rather than the substance of the intervention, as if insolvency itself (discussed below) were a resolutive mechanism.

Insolvency is the older of the two procedures. Introduced in 1989, it is marked by an inherent "corporate" distortion, having been modelled on private-sector insolvency proceedings. However, because local authorities cannot be liquidated, given their obligation to provide constitutionally protected essential services, the clean break typical of private corporate insolvency (i.e., dissolution of the firm and distribution of assets to creditors, generally on a partial basis) is not possible.

In cases of severe imbalance, this often generates a chain of financial distress that is difficult to interrupt. This stems from the transfer, after the commissioners' management phase, of unresolved liabilities (which burden the restored municipality even where the original debt has been fully paid, due to the mere

suspension of interest accrual) and of fictitious assets (residual receivables that must be written off because they are no longer collectible).
If early warning mechanisms fail to function predictively, the crisis first manifests as a cash-flow problem: collection times lengthen and the stock of outstanding receivables accumulates, while structural adjustments risk being implemented too late. The activation of the “corrective arm” thus occurs on a base that is already deteriorated, thereby amplifying the transition costs (opacity of perimeter, lengthy procedures, fragmented governance). It is precisely this mismatch between the timing of information and the timing of action that reveals the limits of the insolvency discipline, particularly in relation to the separation, introduced in 1993[53], between the management of past liabilities, entrusted to the Extraordinary Liquidation Board (OSL), and current management, entrusted to the municipality’s elected bodies.
The inherent difficulty in distinguishing clearly between pre-insolvency items and current obligations, the persistence of a “grey area” (defined inconsistently over time and modified repeatedly), and the potential conflict among the OSL, political decision-makers, and the administrative structure, produce opacity and a temporal misalignment (often considerable) between the liquidation accounts and the five-year supervisory period of the “stably rebalanced” budget.
A further limitation lies in the conventional nature of the stably rebalanced budget: in many cases, it reveals new imbalances immediately, which would require substantial corrective measures. A paradigmatic example is the gap between assessed and collected revenues for waste collection and disposal services which, if significant, quickly generates a structural imbalance, the very imbalance that the insolvency procedure is intended to resolve.

4. Prospects for Normative and Jurisprudential Developments in the Treatment of Municipal Financial Distress

In its recent judgment no. 219 of 2022, the Constitutional Court affirmed the legitimacy of the suspension of creditors’ rights, considering it aimed at ensuring

[53] As introduced by Decree-Law No. 8 of 18 January 1993.

the *par condicio creditorum* and at preventing the further deterioration of the financial position of the local authority. At the same time, however, the Court held that creditors retain the right to full satisfaction of their claims once the entity returns *in bonis*. The Court also concluded that it is the task of the legislature, in the context of a comprehensive reform of the system, to strike a more balanced equilibrium between the interests of creditors and those of territorial authorities.
The legislative innovation envisaged by the Constitutional Court could provide that, in cases where the commissioner (OSL) has fully satisfied the principal and interest claims, any outstanding debts and any amounts due in respect of previously advanced treasury funds shall no longer accrue interest or be subject to monetary revaluation. The new discipline should also apply to claims against the local authority that fall within the competence of the commissioner, starting from the date on which such claims become liquid and payable. This would overcome the current framework, which merely provides for a temporary suspension, precisely until the approval of the report on the management of the insolvency procedure. of interest and monetary revaluation on outstanding debts and treasury advances.
The issue had been raised by the Council of State (Order No. 5502/2021 of 27 July 2021, Section V) in order to resolve a particularly emblematic case. To illustrate the magnitude of the problem, the referral order reports that the original claim against the Municipality of Santa Venerina amounted, in principal, to €4,318,405; that the insolvency was declared by the municipal council on 12 March 2013; and that the claim, entered into the mass of liabilities, was fully paid (principal and interest accrued up to 11 March 2013) on 22 January 2018, for a total amount of €4,830,953.92. The recovery procedure was concluded in 2018. However, after the municipality had returned *in bonis*, the creditor sought the payment of a further €1,812,677.50 in interest.
In summary, the Council of State referred to the Constitutional Court the issue of how to balance the protection of commercial creditors with the need to ensure the financial rehabilitation of the local authority (and of the communities it serves),

asking the Court to reconsider the position previously expressed in judgment no. 269 of 1998[54].

The Council of State argued that, if one wishes to avoid "emptying the constitutional recognition of local authorities of its substantive content," the appropriate balance must not be drawn between two types of debtor (the private entrepreneur and the local authority), but rather between the interests of the creditors of the insolvent entrepreneur and those of the community which the local authority represents. The latter are unjustifiably sacrificed to the exclusive advantage of the individual commercial creditor who is "already remunerated at market rates." In this perspective, the definitive *return to financial normalcy* (*ritorno in bonis*) of the local authority constitutes a "constitutionally compelled consequence" of the principle of local autonomy. On this basis, the Council of State endorsed the position of the municipality, concluding that payment by the Extraordinary Liquidation Body (OSL) should be treated as extinguishing the debt. However, being unable to apply this interpretation directly, the Council of State referred the matter to the Constitutional Court, which, in the aforementioned judgment, dismissed the issue while issuing *an invitation to the legislature*, indicated as the only actor capable, "in undertaking a reform of the legal framework governing financial distress in local authorities," of striking a more appropriate balance between the competing interests involved. This scenario could create conditions for a different assessment, particularly in the financial statements of assignees, of public-sector credit exposures.

Recent case law of the European Court of Human Rights (ECtHR) has made the need for such reform even more pressing. The Court has repeatedly condemned Italy for the non-execution (and excessive delays in the execution) of judgments in cases involving municipal insolvency. Where the insolvency procedure is excessively prolonged, the State is ordered to pay, thereby eliminating the

[54] In this respect, *the Constitutional Court derived from the previous version of Article 248(4) of the Consolidated Law on Local Authorities (T.U.E.L.), now in force, a generalized regime of temporary non-exigibility of the ancillary components of the claim*. This suspension is merely instrumental to the liquidation of the mass of liabilities of the local authority within the insolvency procedure and is therefore intended to cease once the activities of the Extraordinary Liquidation Body (OSL) have been concluded. It follows that *any outstanding creditor claim once again becomes enforceable against the local authority upon termination of the temporary suspension regime,* a regime functionally aimed at the identification and settlement of the entity's liabilities, *regardless of whether or not the principal amount has been paid in full*.

uncertainty associated with long and indeterminate waiting periods. In other words, the prospect of recovering *both principal and interest* becomes substantially more certain.

In summary, following interventions by the Constitutional Court and the ECtHR, creditors now hold a *stronger expectation of full recovery*, which negatively affects settlement procedures that rely on reductions of principal and waivers (in whole or in part) of interest. More specifically, ECtHR decisions have significantly strengthened creditor protection. They affirm that the Italian State is obliged to ensure the full payment of claims recognized by national courts, even where the debtor local authority is in a state of insolvency. Once a condemnation is issued, the Presidency of the Council of Ministers must ensure full compensation within three months of the ECtHR judgment, including statutory interest, monetary revaluation, legal costs, and compensation for non-pecuniary damage. Moreover, as noted, creditors are entitled to claim interest accrued after the declaration of insolvency, as well as the balance of any residual credit once the authority has returned to financial soundness. While these decisions enhance the position of creditors by removing the uncertainty associated with insolvency procedures and their extended duration, they also create new challenges and call into question the coherence and viability of the current insolvency framework.

A recent judgment of the European Court of Human Rights (January 2025) condemned Italy to a substantial payment in connection with the debt of the Municipality of Catania, insolvent since 2018, held by a bank that had acquired the receivable[55]. In this case as well, it was held that the Italian State is responsible for the non-execution of domestic judicial decisions, thereby failing to ensure the right to a fair trial and infringing Article 1 of Protocol No. 1 to the European Convention on Human Rights.

The issue is significant in scope and may prompt further cases in the same direction. Several elements merit attention. First, the action was not brought directly by the original creditor, but by a bank that had acquired a portfolio of receivables. This is linked to the particularly large amount of the award, the strong

[55] CEDU, Première Section, Affaire Banca Sistema S.P.A. c. ITALIE (Requête no. 31795/23), Arret Strasbourg, 16 janvier 2025.

bargaining position of the creditor compared to an ordinary supplier, and the high level of interest accrued (approximately EUR 700,000 per month). All of these factors expose public finances to potential budgetary harm. It should also be noted that the insolvency procedure has been ongoing since 2018 (over seven years), revealing the difficulty of resolving crises involving large municipalities within a reasonable timeframe (consistent with the five-year horizon for verifying a “stably rebalanced” budget), while adequately satisfying creditors. Yet even in such cases, the underlying credit risk remains very low.

The insolvency procedure, like the procedure for multi-year financial rebalancing of local authorities, presents several structural weaknesses that compromise its effectiveness. These should be overcome within a unified restructuring framework, inspired by the logic of the recently introduced “Pacts with the Government”.

The critical issues to be addressed are, first and foremost, the slowness (and redundancy) of the current process, which often extends over several years, delaying financial recovery and leaving creditor rights suspended for prolonged periods. Added to this is the significant impact on public services, which may be reduced or, in some cases, temporarily interrupted, with clear repercussions on the quality of life of residents.

Another critical aspect concerns the loss of credibility suffered by a municipality marked by the “stigma” of insolvency, which results in greater difficulty accessing credit and reduced attractiveness for new public and private investment. This produces substantial social and economic repercussions for the territory, contributing to increased discontent, social hardship, and distrust in public administration.

These are interests, those of the creditor and those of the municipal authority, both deserving of protection. A well-calibrated regulatory framework, consistent with recent case law, could justify a partial limitation of creditor claims where necessary to secure financial recovery and prevent chronic difficulties of local authorities from adversely affecting the communities they serve. In the case of assignees of receivables, such a framework could allow a different, more favourable accounting treatment of the credit in their balance sheets.

5. The Assignment of Trade Receivables in Municipal Finance

The assignment of receivables makes it possible to quantify and convert into cash the current “tail effect” embedded in public sector payment flows. In 2024, commercial receivables purchased from public administrations amounted to €21.69 billion (+4.54% year-on-year), with €7.78 billion outstanding, of which €2.875 billion were past due. Within the overdue component, the share exceeding 12 months represents approximately 78% (€2.242 billion), while receivables overdue by 1 to 90 days account for around 11.7%, those overdue by 91 to 180 days for about 4.6%, and those overdue between 180 days and one year for approximately 5.7%. This typically long-tail structure suggests that reducing the working capital absorbed and smoothing cash-flow volatility, through advance factoring and the standardisation of payment schedules, may constitute effective levers for mitigating financial stress.

In other words, if supply-chain distress depends not only on how much is overdue but on *how long* it has remained overdue, factoring, by converting payment orders into cash and offering standardised payment windows, may substantially reduce the most harmful component for suppliers, namely the accumulated ageing of receivables.

In line with the *Patti* (programme agreements verified by the Ministry of the Interior’s technical committee, integrated into the municipal budget and adjustable year by year), the operational use of factoring turns early diagnostic assessment into cash flows, shortens the “tail effect,” and establishes a virtuous linkage: it anticipates liquidity along supply chains, compresses treasury settlement times, and supports the achievement of the PNRR targets on payment timeliness (30 days, or 60 days for the National Health Service)[56].

From a legal standpoint, factoring involving public administrations rests on two layers. First, the general law governing business transfers of receivables (Law No. 52/1991), which allows for the assignment of receivables *in bulk* and of *future receivables*, and sets out the rules on enforceability. Second, a body of *public law special provisions* (Art. 9, Annex E to Law No. 2248/1865; Arts. 69–70 of Royal

[56] Assifact — Il ritardo nei pagamenti da parte della P.A. e i rimedi a tutela delle PMI (ridotto il termine del rifiuto tempestivo delle cessioni del credito): https://www.assifact.it/fact-news/il-ritardo-nei-pagamenti-da-parte-della-p-a-e-i-rimedi-a-tutela-delle-pmi-ridotto-il-termine-del-rifiuto-tempestivo-delle-cessioni-del-credito.

Decree No. 2440/1923), which, where ongoing contracts are concerned, requires a formal deed (public act or private deed with authenticated signatures) and notification to the administration, which may either accept or refuse the assignment.

This special regime was subsequently codified in Legislative Decree No. 36/2023: Article 120(12) refers back to Law No. 52/1991, while Annex II.14, Article 6, reiterates the requirements of a formal deed and notification, and sets a time limit for the administration to raise timely objections in the context of assignments relating to public contracts, concessions, or procurement procedures. Following Decree-Law No. 19/2024, Article 40, the time limit for refusal has been reduced from 45 to 30 days, in support of PNRR payment targets: once this period expires without objection, the assignment becomes final and payment to the assignor no longer releases the public administration from its obligation.

For receivables certified on the Piattaforma dei Crediti Commerciali (PCC), the law provides for an *accelerated procedure* (Art. 37(7-bis), Decree-Law No. 66/2014): the assignment may be executed by private deed, communicated electronically through the PCC with a verifiable date, and becomes enforceable unless refused within 7 days. For these assignments, the historical formal requirements of Royal Decree No. 2440/1923 do not apply.

In practice, a distinction has emerged between a silence-as-consent regime for state and territorial authorities and a silence-as-refusal regime for healthcare entities, a divergence highlighted by Assifact in the context of the PNRR framework.

Overall, the long tail of overdue receivables, in terms of both incidence and ageing, highlights the opportunity cost of tied-up liquidity and the convenience of bridging instruments (such as receivables assignment and Supply Chain Finance). These mechanisms help stabilise payment flows and reduce the component that is most damaging for suppliers, namely the accumulated ageing of receivables, thereby improving cash conversion and strengthening supply chain resilience.

From a territorial perspective, the regional distribution provided by Assifact reveals a highly concentrated phenomenon. Lazio accounts for 38.28% of overdue receivables, followed by Sicily (15.48%), Calabria (13.68%), and Campania

(12.17%): four regions that together represent 79.61% of the total overdue stock. This does not imply that the “problem” is purely local: in the case of Lazio, the weight also reflects the presence of central government administrations, ministries, agencies, and major public bodies headquartered in Rome. By comparison, the situation in the other three regions is even more severe, as previously noted, given the structural fragilities of local public finance (Campania, Calabria, and Sicily together account for 63.6% of the crisis procedures active as of 31 December 2024).

A closer look at local authorities brings out a clear asymmetry: while receivables attributable to local administrations represent 14.75% of total public sector exposures, their incidence on overdue positions rises to 27.76%, almost double. In municipalities and municipal unions, receivables total €918.7 million, of which 75.2% (€690.8 million) are more than one year overdue. In Provinces and Metropolitan Cities, nearly half of the stock (48.1%) exceeds 12 months. These are unambiguous signs of lengthy administrative cycles and disputes that extend payment timelines: precisely the context in which factoring can generate value, by channeling expected cash flows into predictable payment streams and reducing uncertainty for the supply chain.

This makes it possible to identify a measurable quality gap between public administrations and private firms. As of 31 December 2024, non-performing exposures (NPE) to public sector entities account for 21.4% of the total, of which 78.6% of the entire public sector portfolio is more than 90 days past due, compared with 2.0% for private enterprises, i.e., a relative weight more than ten times higher. This pronounced divergence suggests that the “default” classification for public sector exposures overestimates the actual loss risk compared to analogous corporate portfolios.

This is a structural friction: the rigidity of the regulatory framework (designed for *private-sector* commercial credit) runs up against the procedural delays typical of public entities, particularly local governments and healthcare authorities. The result is a distorted representation, in which many public debtors are formally classified as being in default despite the absence of any real credit loss risk for the factor.

The notion of *past due* and the proposed alignment measures (such as counting the 90-day threshold at the level of the individual invoice) move in the right direction, as they distinguish administrative delay from substantive insolvency. This would free up capital, prevent misclassifications, and enable public-sector credit risk to be priced in a manner more consistent with its actual expected loss[57]. It is therefore clear that factoring towards public administrations can constitute an important instrument for supporting suppliers and activating a liquidity multiplier within the economy. However, its full development still requires a simplification of the relevant formalities and an adaptation of prudential rules to the actual risk profile of the underlying transactions[58].

6. Conclusions

The assignment of receivables in local authorities is primarily linked to delays in payments, which in turn stem from two key factors: the structure of the expenditure cycle in local entities and the presence of severe financial distress (insolvency proceedings, multi-year financial recovery plans, and municipalities with substantial off-balance-sheet liabilities or a high FCDE relative to own-source revenues). These categories overlap significantly and display a strong territorial concentration. In such contexts, the assignment of receivables can play a supportive role in the municipality’s financial recovery process, provided that the multi-level institutional system is able to activate adequate financial support and supervisory assistance.

Approximately 90% of municipalities may be classified as financially sound, and even the remaining 10%, given the legal and institutional guarantees in place, presents a relatively low level of credit risk. While the expenditure cycle can be made more efficient, it cannot be compressed beyond a certain threshold, due to its multifactorial nature and the controls embedded within it.

[57] Assifact – La definizione di default nel factoring e la Pubblica Amministrazione (Febbraio 2025): https://www.assifact.it/wp-content/uploads/2025/02/NPE-PA_La-definizione-di-default-nel-factoring-e-la-Pubblica-Amministrazione.pdf

[58] A. Carretta, D. Tavecchia — Il factoring verso la pubblica amministrazione come leva di sviluppo dell’economia italiana: benefici, ostacoli e possibili soluzioni, RIPM – Dialoghi, Vol. 1 n. 2, luglio 2018

The current legal framework (Title VIII of the Consolidated Law on Local Authorities – TUEL) is inadequate and requires comprehensive reform. A promising avenue could be the extension of the rules governing “Pacts with the Government” recently introduced for certain categories of municipalities. Reorganising the normative framework should aim to establish a more balanced relationship between creditors and local authorities, which could justify a more favourable credit risk assessment for the assignee. As argued, the credit risk of municipalities is structurally low, both for those in sound financial conditions and for those experiencing fiscal stress. This would remain true even under a revised legal framework that better balances the positions of creditor and public debtor. The underlying reason is structural: a municipality cannot be declared bankrupt, as it provides constitutionally protected public services. Consequently, creditor protection is inherently high. On this basis, a more favourable assessment of the time dimension of receivables (correlated to specific phases of the expenditure cycle) could reasonably be adopted for the holder of the claim.
Receivables assignment is also often driven by the needs of the original creditor to avoid excessive fragmentation of claims across multiple local authorities. In such cases, the assignee effectively performs a service function that benefits the system as a whole. The advantage, beyond the possibility of establishing stable, low-risk revolving mechanisms, lies in extending the scope of the intervention to the entire sector, with significant positive effects on transaction volumes.

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