

# PRESS RELEASE

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## European Leveraged Finance Association: Reverse Factoring is a blind spot for investors

### ▪ ELFA successfully lobbies for disclosure and calls for further improvements

**London, 16 March 2022:** The European Leveraged Finance Association (ELFA) has lobbied for disclosure on reverse factoring and calls for further disclosure agreements to protect investors. In its Insights report published today, [Reverse Factoring: A blind spot for investors](#), ELFA highlights how a lack of transparency in borrowers' use of reverse factoring facilities can hide potential risks for investors.

The report cites a number of recent high-profile defaults, such as Carillion and Abengoa, in which reverse factoring played a major role in obfuscating the true weakness of the borrower's balance sheets.

ELFA argues that the failure to disclose either the presence of such facilities or the extent to which they are used creates a blind spot for investors for the following reasons:

- Lack of disclosure results in under-reported financial debt, which has the potential to translate into mispricing credit risk and over-value stocks.
- Reverse factoring arrangements are short-term in nature and can be pulled at short notice, creating the potential for a working capital shock and exacerbating default risk.
- When arrangements are not disclosed in financial statements, there is a risk of asymmetrical information amongst financial market participants.

ELFA has engaged with the International Accounting Standards Board (IASB) and International Financial Reporting Standards (IFRS) during 2020 and again in 2021, following the collapse of Greensill. Subsequent to this, the IASB decided to add a narrow scope standard setting project to its work plan on supplier finance arrangements. As a result, the IFRS Interpretation committee has recommended a number of disclosure requirements, which ELFA outlines in its report. ELFA will respond formally to the IASB consultation, which closes on 28 March 2022.

ELFA's Disclosure & Transparency Committee plans to extend its constructive engagement with IFRS to conventional factoring, where it is felt disclosure can also be improved, along with other key topics relating to financial statement reporting.

**Sabrina Fox, Chief Executive Officer, European Leveraged Finance Association, said:** "The disclosure gap under current accounting standards raises the risk that companies may understate the quantum of their debt obligations by classifying this form of borrowing as trade payables. As there is currently no obligation for companies to inform investors that they are doing so, we have lobbied the IASB and IFRS for improved disclosure."

**End**

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#### **About European Leveraged Finance Association (ELFA)**

ELFA is a trade association comprised of European leveraged finance investors from over 55 institutional fixed income managers, including investment advisors, insurance companies, and pension funds. ELFA seeks to support the growth and resilience of the leveraged finance market while acting as the voice of its investor community by promoting transparency and facilitating engagement among European leveraged finance market participants. For more information, please visit the ELFA website: [www.elfainvestors.com](http://www.elfainvestors.com).