

Contents

01– Confirming, a payment management system for companies

Carlos Dalmau (AEF President)

02 – Confirming: the origins, its evolution, its value proposition

Javier Rico (Member of the AEF board of directors)

03 – Confirming as a means of payment Win-Win-Win

Luis Montesinos (LANTERO Group Treasurer / Associate Professor at IE Business School)

04 – Confirming from the point of view of the Paying Customer - *Interview*

Teodoro Pastor Quinteiro (Treasury Director – COFARES GROUP)

05 – Confirming: financing SMEs

David Rajas Martínez (CEO - Redstone Engineering S.L)

06 – *Confirming: a completely digital product*

Roberto Gutiérrez (CEO – Alvantia)

07 – *Confirming v SCF and Reverse Factoring*

Mónica Martín (AEF advisor)

08 – *Confirming: the figures that show its evolution*

Carlos García Casas (AEF General Secretary)

Nb: Confirming is a registered trademark of Santander Factoring and Confirming SA, EFC.

Nb: AEF – Spanish Factoring Association

01 - Confirming, a payment management system for companies

Introduction – Carlos Dalmau – AEF President

The traditional banking that we know today has its origins in flourishing cities in northern Italy, Florence, Venice...; Later, taking a leap in time, we find the genesis of the most sophisticated banking products and services commonly used today in other European cities, Amsterdam, London.

Confirming, however, came about and was developed in the early 90s in Spain, reaching its configuration through a simple and efficient conceptual description of the service and under the formulation of the operational process of a financial product that we can certainly consider as one of the simplest in its definition. “Nice” and accepted by companies. I have always thought that it is a product that fits very well with the Latin mentality of simplicity and the pleasant perception of our environment

If we carry out a didactic exercise, I invite you take part, and put the word Confirming in Wikipedia, you will get the following definition, I assure you on behalf of the Spanish Factoring Association, we don't sponsor Wikipedia:

“Confirming is a financial service offered by a financial institution (or private companies) with the aim of making it easier for its clients to manage the payment of their purchases. It is offered so that invoices can be paid before their due date or to obtain financing from the bank that the supplier was not willing to grant, in this way, the relationship between client and supplier is not damaged and the client obtains the time they require”.

If we look closely, we can see that the words “make easier”, “obtain”, “relationship” appear, in essence they transcend the simplicity and “friendliness” of the service offered and show how the financial institution that offers such a service becomes a partner of the companies.

A few years ago, in the AEF, we carried out a survey of a few hundred companies to find out if they knew about Confirming and how they perceived it. If I have to summarise what came out of this survey in the most concise and quickest way possible, I would say that companies see Confirming as a very easy tool to understand and use and there is large-scale acceptance of the product.

As this was a survey, it was not about indicating or explaining the advantages of the product, the companies themselves listed them:

- Easy to use
- Savings in administrative costs
- Loyalty of and connection with your suppliers
- Better image. The institution covers my service and adds financing
- Transparency in both information and management

Perhaps at the time, we also missed the opportunity to carry out a survey of the suppliers, but there would surely be no shortage of comments on the main positive aspects that the product has: the guarantee of collection, financing without having to request a line from your own institution and the undoubted cash flow enhancement.

There will doubtless be organizations or companies which have a different view of Confirming, both in Spain, where it is more established, and in Europe, but that will surely be due to other interests or a lack of knowledge, because if we analyse and value the product objectively, we will clearly see that it is an optimal and efficient tool, both for the company and for the supplier; simple, easy to use and adapted to the market environment in which we operate.

The proof is in the evolution of historical data that we publish annually in the Spanish Factoring Association and that we invite you to view (we include an article on the evolution of Confirming figures in this Newsletter). If we only focus on the last 6 years, we can see that Confirming volumes have practically doubled and the number of companies using Confirming has grown. Moreover, the number of companies adopting it and using it intensively and constantly increases every day.

If we look at 2023 alone, Confirming registered a total volume of payment orders worth €2,254,269 million which was an increase of 11.5% compared with the previous year.

In this Newsletter we intend to carry out a 360-degree approach to Confirming, so we will include articles which analyse the question from different standpoints and perspectives. I'd like to take advantage here to thank all those people, within and outside the AEF, who have selflessly participated in this publication, contributing their experience and vision, and writing a series of articles that should help us to get a holistic vision of the reality of this financial tool, Confirming.

02 - Confirming®: the origins, its evolution, its value proposition

Javier Rico – Member of the AEF board of directors

If we look back thirty years to the beginning of the 1990s, there have been **radical changes in the commercial relationships between clients and suppliers, the collection/payment instruments**, as well as the financing products used by companies to advance payment collection of their sales

At that time, as a rule of thumb, it was the supplier who took the initiative regarding collection by sending bills of exchange (bills) to its clients; Although at that time there were already some companies (large payers) that had taken a step forward, taking a payment initiative by issuing promissory notes in favour of their suppliers.

A supplier could advance the collection of its sales via a bank or wait until the due date to collect, upon presentation of the corresponding collection document. Therefore, in the market situation of that time, **the king of cash-flow financing products was the trade discount of bills and promissory notes.**

In this context, **the administrative burden and payment operations (bills and promissory notes) required a great effort**, mainly for large payers. Therefore, it was necessary to look for formulas that

- freed paying companies from administrative payment burdens
- eliminated supplier tax costs (stamp duty)
- facilitated access to financing for suppliers

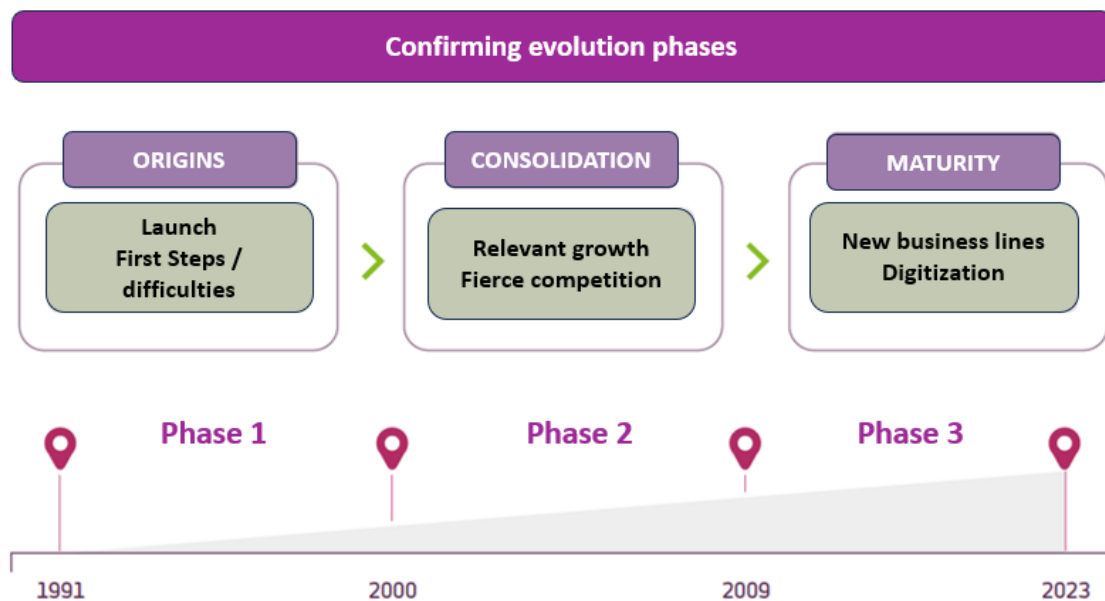
In the interest of solving these issues, Confirming® came about.

If we take a “trip” through the different Confirming® phases of the last 30 years, we can safely say that we have a **product that has shown great resilience in situations of enormous difficulty such as the economic crisis of 1993, the financial crisis of 2008 and the health crisis of 2020.**

Confirming® is a product that has adapted and has become more sophisticated, changing at speed and in accordance with the needs and demands of companies, which means that it is currently on the market with a series of versions that satisfy the wide range of needs of the companies that use it.

In the same way as we would do with the life cycle of any product, we can divide this 30-year “journey” into the following phases:

1. Launch (1991 – 2000)
2. Consolidation (2001 – 2009)
3. Maturity (2010 – 2023)



1. Launch (1991 – 2000)

Confirming®’s origins weren’t easy, the paradigm had to be changed and that could not be done overnight. **It was necessary to invoke a “cultural” change in company habits**, moving from a situation in which the supplier initiated collection management to one where it was the client who initiated payment.

This phase was mainly characterized by the paying companies:

- ✓ Having administration costs for payment management.
- ✓ Being subject to high tax costs (stamp fees) derived from the issuance of promissory notes.
- ✓ Having little sensitivity for their suppliers’ financing.

In that situation, Santander Bank came up with payment brokering, with an easy and simple formula, which was called Confirming® and, which provided significant advantages for both parties, the paying company and the financial institution brokering “win-win-win” payments.

The market launch consisted of a basic and unsophisticated offer with a focus on generating expectations in the market and creating a brand. **In this phase, the volumes of brokered payments were modest and were focused on a few large paying companies.**

This period was a “sowing” phase, presenting Confirming® to companies, so that **they could understand it, they could see the advantages for both the payer and the supplier and, at the same time, a trust in the product could be generated.** It should be noted that, in this phase, digital capabilities were very limited and internet banking was taking its first steps.

2. Consolidation (2001 – 2009)

This phase is defined by a favourable economic environment, excess liquidity, strong price competition and narrowing margins for financial institutions.

Companies were already well aware of Confirming®, thanks to the hard work carried out in the previous phase. From the engineering created around this product, new modalities were developed that enhanced the initial basic offer, for instance:

- ✓ distribution of margins between payment company and financial institution.
- ✓ repurchases: a greater line turnover was achieved, reaching more suppliers and taking advantage of the fact that the paying company optimised the placement of its treasury surpluses.
- ✓ prompt payment: allowed paying companies to benefit from early payment discounts from their suppliers and finance themselves at the same time, with the discount offered by the supplier, higher than the cost of financing
- ✓ simultaneous Confirming® programmes

Confirming® took off at this stage, became consolidated and also reached the SME segment.

The entire competition already had a solid offer and a defined strategy, and the sales pitches were focused on differentiation and service for both the paying customer and its suppliers.

At this stage, international Confirming® was also being developed as a means of payment in trade operations with foreign suppliers, both in euros and other currencies.

3. Maturity (2010 – 2023)

This period is characterized by a brutal financial crisis and an unprecedented health crisis. In both cases, **Confirming® showed its strength, as one of the most used working capital financing products** by companies, in a context of difficult access to credit.

Supplier sensitivity increased, with Confirming® providing an extraordinary solution for suppliers in difficulty.

The two main key points of this period and, those of strategic importance, are technology and digitalization. Technological developments focused mainly on the digitalization of the suppliers' advance payment process, with the aim of optimizing the use of lines and the business for all parties involved.

In this maturity phase **Confirming® reached the entire spectrum of SMEs, getting to all companies regardless of their size.** It is also worth highlighting **the influencer**

effect that suppliers have, those suppliers have sometimes been the ones who impose this payment method on their clients.

In that way, **very significant payment volumes were achieved, reaching hundreds of thousands of suppliers**, who used it as a means of advance payment of their collections “without recourse”, in an agile, simple way and without the need to have working capital lines made available to them.

Considering the importance of technology and digitalization in this phase and the importance of information and “data” management, advantage was taken to develop packaged solutions, both for companies that use Confirming® as a payment means and their suppliers.

Having seen all this, we can conclude that today, Confirming®:

- ✓ has been accepted in the market. Proof of this is the **thousands of existing programs on the market and the hundreds of thousands that use Confirming®**:
- ✓ is very well known and widely used in the market, **making up 1/3 of all trade financing**
- ✓ **has a good reputation and good performance.**
- ✓ is a **very dynamic and innovative product which is evolving continuously** and is years ahead of other markets.

03 - Confirming as a means of payment Win-Win-Win

Luis Montesinos – LANTERO Group Treasurer / Associate Professor at IE Business School

And it has continued to grow and expand throughout the world in all industries and sectors, which has not surprised those of us who have been using it for many years, some of us since its origins in the 1990s.

The fact is that we knew that Confirming was a magnificent example of financial innovation at the time and when used correctly, it added value to both the paying company and its suppliers as well as to the banks that provided the corresponding lines from an approach that we then called “WIN-WIN-WIN”.

Leaving aside the different terminology (i.e. “reverse factoring”, “supplier factoring” ...) the difference today is that it is no longer just a Spanish banking system product but has evolved to become a global phenomenon in international banking markets. A series of fintechs, which offer it along with other schemes and instruments to finance the entire supply chain, has proliferated. This all comes under Supply Chain Finance (“SCF”), which is already considered to be an industry itself.

In this way, for those of us who have been working in multinational companies or operating with foreign suppliers, it is very gratifying to take stock of how much easier it is to apply Confirming as a means of payment in our international transactions today compared to the initial difficulties we faced. In the past we had to patiently and often repeatedly explain what it was to suppliers until they understood the process and its undoubted advantages.

Focusing on Spain and although, as we have indicated, the scenario has changed since Confirming now “competes” with other SCF products and tools offered by both banks and fintechs, Confirming has continued to grow (i.e. total amount of €136,000 million at year end 2023, which represents an increase of 7.3% compared to the previous year according to data from the Spanish Factoring and Confirming Association) as a widely used means of payment among all types of companies.

From the operational point of view, there may be different strategies and plans between paying companies and their banks regarding the Confirming conditions offered to their suppliers, but it is essential that its nature, as a means of payment, continues to be respected because one of the keys of its success has always been an accounting treatment which allows the optimization of working capital for both parties.

Despite its obvious benefits and advantages for all parties involved and perhaps, as a consequence of the enormous international boom of this type of products in recent times, some doubts have also arisen due to the opinions of the rating agencies. In effect, these agencies have focused on some exceptional cases of bad practices in which the original product would have been adulterated with additional financing terms to the paying company. On the other hand, the development of a certain variety

of schemes and the different terminology used have not helped either. The underlying risk is not trivial because it could imply a potential accounting reclassification as financial debt for this type of payment instruments. This would be an aberration because it would distort its very essence and, I would go as far as to say, would imply that a large majority of companies would lose interest in using it, thereby leaving many other companies without one of their main sources of liquidity.

For all these reasons, we would advocate a more transparent, balanced and effective operation, in which buyers and suppliers agree on payment terms and mutually satisfactory contractual conditions, where the abuse of a dominant position has no place and, in the end, the maximum yield is obtained from this means of payment to provide liquidity to the banking system.

Confirming, in this way, is a genuine example of business collaboration that strengthens commercial relationships between companies and their suppliers and in which all types of situations fit depending on the respective financial positions of each other in terms of their relative financing costs.

Taking this into account and considering that in recent times there has been an enormous development of “sustainable financing” in general, we are beginning to implement sustainable Confirming schemes that have a bearing on the advantages mentioned and also represent an additional derivative in terms of optimizing the supply chain and the commercial relationship between companies from the point of view of their corporate Environmental Social Governance strategies.

Therefore, and even though, as we have seen, the context is substantially different now from the origins of Confirming, with paying companies and their suppliers having access to other products and additional tools both as means of payment and as financing instruments, we are convinced that Confirming will continue to grow and add value to all parties involved.

Nevertheless, it is necessary to continue adapting to new times. More process automation, standardization in operations as well as full certainty regarding accounting treatment would all be desirable adaptations as we move into the future.

Long live Confirming!

04 – Confirming from the point of view of the Paying Customer - Interview

Teodoro Pastor Quinteiro – Treasury Director –COFARES Group

Interested in finding out the opinion and point of view of the Confirming service from the perspective of a paying company that uses this service, we contacted Teodoro Pastor, COFARES GROUP Treasury Director, who kindly found time in his busy schedule to answer our questions.

When did you start using Confirming services in your Group?

Although I have personally been using it since the late 1990s, Confirming, in the Cofares Group is about to reach the 2-decade mark. It was first implemented in 2005, so, we have been using this management tool to a greater or lesser extent for almost 20 years.

The banks we had been working with offered us this payment method, and little by little we opened Confirming payment management contracts with almost all of them. We currently work with nine different institutions to make our Confirming payments

Do you remember how you paid your suppliers before implementing this Confirming solution?

Before Confirming we used to pay either by check or by sending Standard 34 payment files so that we could make the relevant transfers to our suppliers. In any case, we did not issue promissory notes, so our suppliers did not have a negotiable document that would allow them to seek financing for their trade credits.

How did your interest in Confirming as a payment mechanism come about?

Confirming is a tool that has been gradually adding knowledge and gaining prominence in the general market and in our sector in particular. We began using it to consolidate our payment terms while providing greater security and certainty to our suppliers regarding outstanding payments.

While it is true that banks do not generally assure the supplier of future payments processed by Confirming, it is also true that when a financial institution opens a Confirming line for you, it will boost the trust that the supplier places in you at the time of fulfilling the payment commitment on the stated date

What are the main values or advantages that you see in implementing a Confirming service?

Firstly, I would highlight the simplicity of operation. A future payments file needs to be developed, which meets standards that are very intuitive and easy-to-generate.

Secondly, the management information it provides you is impressive: your payment statistics, volumes and deadlines, your suppliers' financing needs, etc. This provides you with deeper knowledge and allows you to make more suitable decisions regarding the management of your payments.

Thirdly, Confirming allows you to delay payment or carry out post-financing in case of a specific need or facility, without affecting the supplier's collection date.

And all of these are very good reasons for those of us who make payments, but where a Confirming program stands out is in its attractiveness for suppliers, especially if they are medium and small-sized suppliers. It provides them with future payment information and a chance to finance the loan in a simple and very intuitive way. The risk of the operation falls on us, the payer, so granting an advance to the SME is quick and simple. For those companies which, according to the Bank of Spain's Risk Information Centre (CIRBE), take on a high credit risk, containing liquidity in this way is particularly interesting.

What percentage of your payments to suppliers are channelled through this service?

Broadly speaking, we have two types of suppliers: laboratories, which account for a relevant volume of our payments; and other smaller suppliers - which could be around 2,000 companies. In terms of payment amounts, we must be managing about 50% of the total through Confirming, using the different Confirming lines that we have open; in terms of number of invoices, 65%; and in terms of companies, 67% of our total pool of suppliers.

We take advantage of the lines we have to channel payments to the companies that may most "need and appreciate" our paying them through Confirming, the SMEs. We usually include those supplier companies that have a frequent business relationship with us and collect after more than 30 days.

Do you remember the processes of implementing a Confirming line? What would you highlight or comment to a company that wants to start paying for Confirming?

Well, now it is no longer a problem, but years ago each institution asked you for a specific file format to upload payment remittances in accordance with its own format. This, accompanied by the tedious nature of the institutions' initial testing processes means that you have to be very patient. It is true that today there is a unified file format that allows you to work with different institutions without having to adapt the outbound file that you have already prepared. Nowadays, the same file format works for every institution or almost every institution.

On the other hand, there is the issue of the supplier's information or knowledge about the service and its possibilities. Companies already know what Confirming is, what they will receive and how they have to operate to request financing. Now, it doesn't hurt to explain and present the advantages this form of payment gives suppliers. We do not emphasize this beforehand in the implementation, although we do send a communication to the supplier for each payment order so that they know when it is available in the bank.

From the standpoint of managing the process, what would you highlight or what do consider to be most relevant?

As I mentioned previously, Confirming simplifies mass payment processes, avoids paper, and is highly digital; It allows us to maintain a comfortable PMP (Average payment period) for our treasury – at between 41-42 days -, it provides solvency to the supplier; and we gain efficiency in execution. We have our ERP prepared for the generation of payment remittances and the corresponding accounting modifications, which greatly simplifies banking, balancing and reconciliation processes management.

Tell me, Teodoro, do your suppliers ask you to channel payments through Confirming?

Large multinational suppliers usually request payment through SEPA direct debit or Confirming, but SMEs always request Confirming.

Do you think that since you started using Confirming you have reduced the internal acceptance and payment compliance times?

As I mentioned, Confirming implies a more transparent and clear payment relationship with the supplier. It is a more collaborative tool, it provides solvency and in the way of

working, it enhances reputation. Besides, we do not get involved in any possible advance payment the institution makes to the supplier, in other words, we do not receive any type of compensation for it, which gives our collaborative position even greater strength.

Do you use the Confirming standard, or do you use any additional modality: prompt payment, arrears, ...?

Not at the moment. They are useful tools, and it depends on the particular case and situation of each company. Prompt payment is usually cheaper than a direct discount to the supplier and in some cases post-financing is also less expensive than using another type of alternative financing. In any case it is impossible to generalize, you have to consider each specific case and situation.

And finally, Teodoro, if you had to ask for improvements or new features to this payment system, what would you ask for?

Regarding enhancements, I think the tools that process the information from the Confirming programs and that allow us to know more and show us a detailed view of all payments can always be improved. A type of simple monthly report or a summary of certain points of the program could provide us with value.

On the other hand, I think that looking for platforms that unify this payment management could help us. We currently manage 2/3 of our invoices through Confirming, but to do this we have opened lines with 9 different institutions. A situation such as this must be managed. I think that the idea of intermediate platforms that unify management and to which banks turn depending on their preference should be an area of improvement to analyse.

Interview carried out by Carlos García Casas – AEF General Secretary

05 - Confirming: financing SMEs

David Rajas Martínez - CEO - Redstone Engineering S.L

Confirming (CNF) for SMEs is a collection instrument that helps us from many standpoints. Not only because of the economic benefit that it offers us, but because it has many other values that are not necessarily seen from a financial point of view, but which make us decide whether to work with a client or not.

At Redstone Engineering S.L. **what we value most is the agility to convert an invoice with deferred payment into liquidity with the security and the confidence** that the payment is guaranteed by a financial institution.

Sometimes we meet clients with whom we are working for the first time, and although this might make us a little wary, we do not want to lose that sale. Thanks to CNF, even if we do not know the client, we do know the bank from which the CNF is issued. Consequently, we can be sure that behind this proposal, there has been a bank risk department which has rigorously studied our client before giving them the option of paying this way and so this product provides us with an implicit guarantee. Therefore, **whenever a client tells me that he will pay me by Confirming, I do not ask for more payment guarantees, nor do I hesitate to work for him.**

As payment is guaranteed by a bank, **when we take advance payment, it is very valuable for us since we obtain non-recourse financing which is not declared in the Bank of Spain's Risk Information Centre (CIRBE) and does not close our own recourse financing** in other products.

This **financing is very convenient for us as it frees up our financing lines in our banks and avoids costs** such as notarial intervention, opening commissions, studies and renewals as well as costs incurred as a result of not having the lines or those related to stamp duties when we advance a promissory note.

All these costs disappear when we are paid through CNF and for this reason, **we prioritize working with clients who offer us this payment method.**

Another thing we like a lot is **the freedom of being able to decide when to advance Confirming**, in our case we do not always seek advances, but we have peace of mind knowing that we have the **chance to get advances at any time and, when we have liquidity challenges, this helps us a lot.** In this way, we have complete control of our costs related to CNF advances. Regarding **those costs, in our case, we find a little of everything, we have clients who offer us better and worse Confirming deals.** As I mentioned, we do not seek advances for everything. What we do to manage our costs

is that when we have a need we choose advances that involve lower costs and wait until the due date for those that are more expensive.

For us, this “modern” form of financing has become another weapon in our financial portfolio and after receiving a lot of Confirming ourselves, we have also decided to offer this form of payment to our suppliers. For some time now we have also been working with CNF from the client's point of view and this has helped us a lot. It has given us a better company image, negotiation power and payment guarantee. We have seen that all of these are highly valued by our suppliers.

For all the reasons I have stated, **I think that CNF is a product that any well managed company in the market should have** as one of its priority financial instruments in its daily business life.

06 - Confirming: a completely digital product

Roberto Gutiérrez- CEO Alvantia

Those of us who were lucky enough to have participated in the design and development of the first Confirming solutions, continue to build new Confirming platforms based on the latest technologies and we are aware of how the product has evolved over the last 30 plus years.

Confirming, came about on the initiative of Santander Bank, rapidly expanded as a flagship business banking product, and for years has not only been marketed by banks, but also by other types of financial institutions. It is important to understand the needs, differences and keys to successfully implement a Confirming solution in a Bank and in other different financial institutions.

Confirming is a successful product both within and outside our borders. It is also interesting to find out how it has evolved in different countries, adapting to different regulations, uses and customs. Two illustrative examples of this are supplier onboarding and electronic invoicing.

It is important to design a solution by putting yourself in your customer's shoes, in this sense, Confirming needs an additional effort since three different types of customers coexist in the product: the financial institution the payer or debtor and its suppliers. The product should be designed with the needs of these three types of customers in mind.

As mentioned, none of the entities which market the product has the same needs, but neither do the payers or their suppliers. Confirming customers are increasingly paying companies which are less large. For their part, the suppliers, since the time the product came about, have always been characterized by being mainly small and medium sized enterprises, from completely heterogeneous sectors and services.

One of the keys to responding technologically and operationally to the heterogeneity and differences of these three types of clients (financial institutions, payers and suppliers) is functional comprehensiveness. Over time, new functionalities have been developed to respond to the growing needs of the large market operators and their main clients. A Confirming platform in such a mature and competitive market as the Spanish one, should be innovative, functionally complete and extremely parameterizable at different levels.

Without doubt a key to the success of the product is atomisation, which has enabled safe management of large volumes of payment orders for years.

A digital solution should foster self-service for paying customers and their suppliers. This is certainly one of the pillars on which the greatest evolution has occurred in recent years, and this change has been developing hand in hand with technology. I remember a not-so-distant past in which fax machines sent mass communications to countless suppliers.

Suppliers may not be clients of the financial institution, however, they must be able to operate completely digitally, as if they were clients. This is a challenge, especially for banks, since the highest cybersecurity standards need to be applied to non-customers. Suppliers nowadays must be able to operate from the web and from mobile devices.

Throughout many years, financial institutions had to carry out customised developments of expensive technological Confirming platforms. However, at present, there are several players, including ourselves, who provide technological commercial financing platforms.

Technology is an applied science; therefore, it is not an end in itself but a means by which financial institutions can market Confirming in a completely digital and secure way, reducing risks and maximizing sales.

Although, the current level of digitalization in Confirming is very high, as it is in other financial products, Confirming will continue to face great challenges, such as those related to cybersecurity, fraud prevention, hyper-personalization and sustainability. These challenges will undoubtedly be overcome with the application of artificial intelligence.

Among all the AI disciplines, we are particularly focusing on the application of machine learning to accompany our clients in defining their commercial strategy, carrying out intelligent analysis on their own historical data to maximize supplier advances.

Hyper-personalization has the aim of satisfying each customer's needs through a unique and personalized experience.

Artificial intelligence is not just the future, it is the present and its application is undergoing a geometric expansion which is already changing commercial financing and will continue to do so at an even faster rate in the coming years.

07 - Confirming v SCF and Reverse Factoring

Mónica Martín – AEF Advisor

Inadvertently but without hiding it, the European proposal for a late payment regulation, known by its acronym LPR (Late Payment Regulation), has uncovered the regulator's animosity towards Supply Chain Finance schemes. The Regulation's explanatory statement of this proposal states that bad payment practices, such as Supply Chain Finance, must be avoided.

The issue is that the product/service of Confirming®, as it has been known since its creation in Spain, has been around much longer in Spain than it has been in other countries. In fact, it came about quite a lot later abroad, at the time of the subprime mortgage crisis in 2008, and that made a big difference. From that moment on, the service was designed so that the client confirming the invoices would have as many tangible economic benefits as the suppliers. Although in Spain this was a resource used in some payment programs - remuneration to the client/payer through a margin distribution scheme -, it was much more common abroad and was carried out in a much more subtle way, so that the auditor could not say anything about it. As a result, this type of practice became somewhat typical of a "supply chain finance" programme

From then on, both the financial institution and the client got to work on determining and choosing, within the pool of suppliers, who could be part of the supply chain finance program, studying those that would have the biggest impact on their Cash Conversion Cycle (CCC). Indeed, the formula used determines the "Average Inventory Period", the time it takes for the company to convert its inventory into cash, the "Average Accounts Receivable Period", the average time it takes the company to collect from its customers. and the "Average Supplier Payment Period" which refers to the average time it takes to pay your suppliers. The latter is the key to the programmes, since a longer period taken to pay suppliers means that the company takes less time to convert its investments into inventory and accounts receivable into cash. In other words, a low CCC indicates that the company is managing its cash flow effectively and efficiently and, therefore, working capital is being managed optimally so it has the liquidity it needs to be able to cover its obligations with suppliers and employees on time. This shows that the organisation is economically stable.

In a period of wariness like the one experienced in 2008 with subprime mortgages, keeping CCC as low as possible was the key to generating confidence in the company's management and extending terms to suppliers. The quickest and most effective way of getting liquidity was to use suppliers as a bank in which capital was trapped. Companies abroad began to use their supply chain with the aim of ensuring that few

suppliers had a maximum impact on their liquidity and as a result, there was a wave of payment deferrals, mainly in Europe. **The idea was simple, by selecting and segmenting suppliers, they reached agreements with them to be included in the "supply chain finance" programs. The large companies only made their rating and financing of the program available to those suppliers that agreed to extend payment terms**, like a "quid pro quo".

However, **in Spain, Confirming® never took such a turn.** Payment terms were already extensive, due to the very nature of the market and payment practices. Therefore, companies in Spain do not use this product as a financial instrument for their working capital, but as **a mass payment method which optimizes its processes and allows the vast majority of its suppliers to benefit in an agile and simple way from the financing measures that financial institutions have made available.** In fact, this is shown by the use of Confirming® programs for supplier financing compared to "Supply Chain Finance": while the former is only used by 50%, the latter has a usage of close to 100% because only captive suppliers and users of the financing offered enter the program. Confirming® is much more open and "democratic" and therefore is not comparable to "supply chain finance" or reverse factoring even though it shares similar mechanisms and processes.

As such, **it is important to value the freedom that Confirming® gives to supplier companies to choose whether or not to use the instrument granted to them.** Financial institutions do not decide which suppliers are involved or negotiate the terms of payment delays. Instead, an independent third party, not involved in the existing business relationship, provides the service. This is required by auditors for it to still be considered as commercial financing.

Several years ago, the **Global Supply Chain Finance Forum** set out to clarify for the market the definitions of all the products that should be included in Supply Chain Finance, distinguishing between loan products and financing products based on receivables. When defining Supplier Finance, the definitions consider certain terms as synonyms: "payables finance", "reverse factoring" y Confirming® among others. However, Confirming® was considered to be an Iberian version with distinctive features, but adds that 'this service usually includes a binding commitment regarding availability and recourse to the supplier.' Nothing could be further from the truth, as can be seen and verified by analysing the legal terms of the offer provided by the service entity in each payment notification that a Confirming® issues to a supplier issues. It is therefore time to abandon the low profile we have maintained until now and advocate for Confirming® to be considered in relation to 'supplier finance' as gas is to electricity: an 'Iberian exception.'

Confirming® is a payment instrument that favours supplier companies and helps them to obtain the necessary liquidity for their production processes. In the Spanish market it can already be considered a tool that is as consolidated and useful as promissory notes were in their day, and as well-known and common as transfers. For this reason, it is hard to understand how it can be classified and grouped with other practices that do not have the same reputation – to get an idea of how reputable it is, you would only have to ask the majority of Spanish SMEs what they think about this service.

08 - Confirming: the figures that show its evolution

Carlos García Casas – AEF General Secretary

Nowadays, it seems that if it takes us longer than a year to be successful in any proposal or approach, “we are already taking too long”; If we do not get a return on the investment required to implement a new idea within a period no longer than two or three years, we have already “been left behind.” However, in days gone by, it wasn't so much like that.

Confirming®, came about in a gradual yet consistent way at the start of the 1990s. Although the concept of digitalization which surrounds us today didn't exist back then, Confirming® was not exempt from the difficulties associated with being disruptive, wanting to change things and doing things differently as well as seeking efficiency, improvements, optimization and advantages for all parties.

This article aims to present, in figures, with the numbers available to us, the evolution of a financial service/product which has been present in the business community for more than 30 years and has been used by the broader Spanish market in a common, intensive and non-confrontational manner.

The AEF has been grouping data provided by its members and operators related to Factoring and Confirming® in the Spanish market and the tables, graphs and ratings shown below are based on the Spanish Factoring Association's (AEF) statistics.

Although Confirming® as an activity had begun in 1992 and 1993, it was not until 1994 that it began to take shape when other institutions started their activities and began competing to present a service for managing large-scale commercial payments on a scheduled basis under the basic parameters of what we understand today by Confirming®. Therefore, we have a 30-year activity time span (1994-2023) which gives us a true perspective of what the course, evolution and use of this service in Spain has entailed. Later, we will focus on a somewhat more detailed analysis of the evolution and figures of the last 10 years, which will give us a more accurate assessment of the trends and current reality of the service.

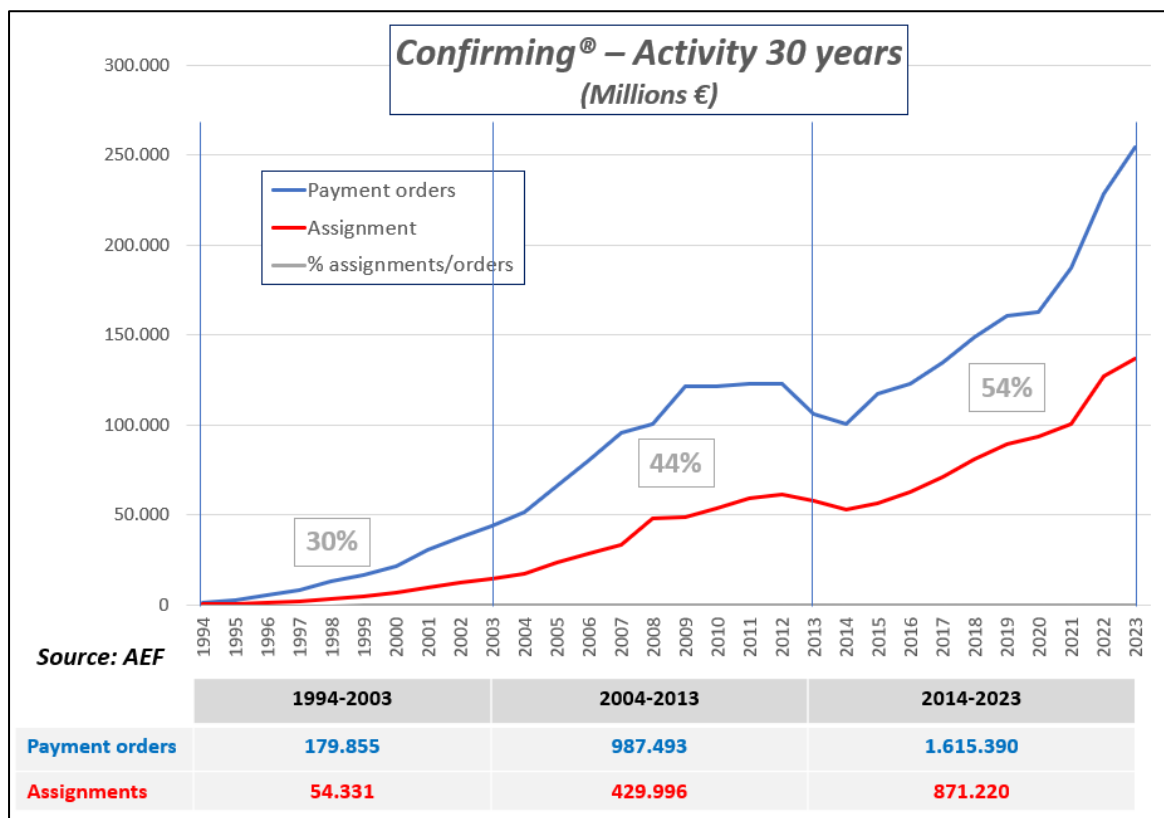
“Confirming®: 30 years is nothing”

By grouping this service activity in 10-year periods, we can clearly identify how the use of this financial tool has evolved in our market, both from the perspective of payment issuers, payers, Confirming® Service Contract customers and from the recipients of the same, the suppliers, the companies that sell goods and services.

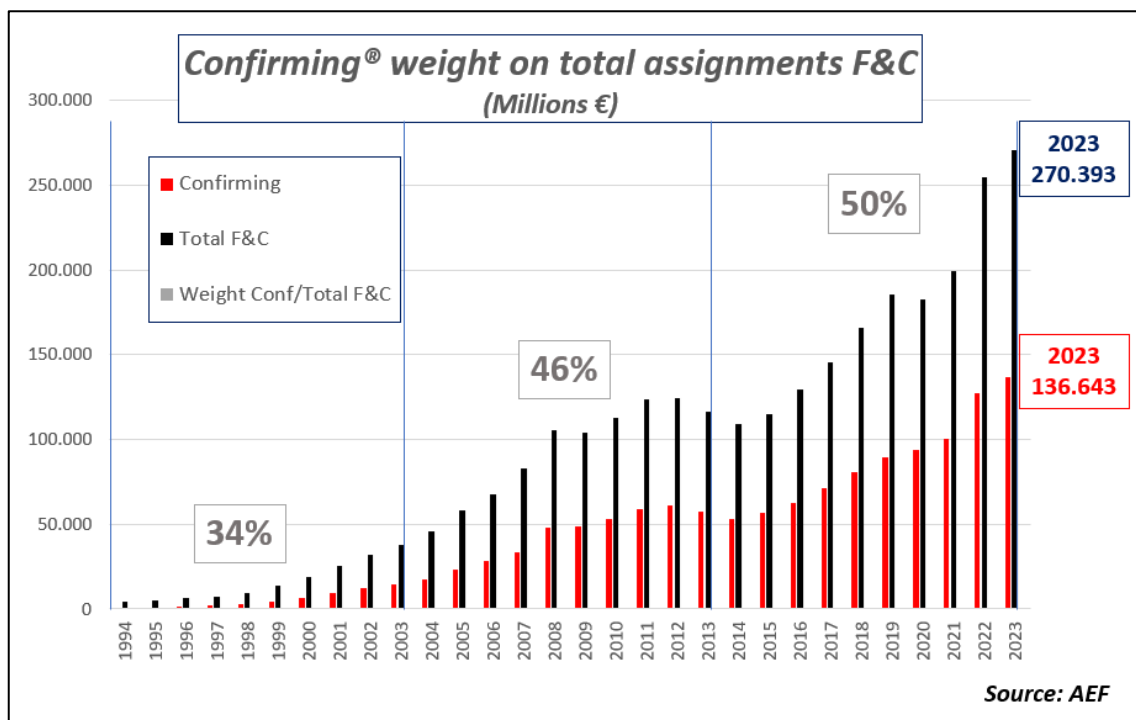
We can observe that there has been a continuous growth in the volumes of payments managed over these 30 years, which means that the implementation of this payment system for suppliers has gradually expanded, being used not only by large payers but also by medium-sized companies which understand the importance of this service in helping with payment management and supplier relations.

Comparing the payment volumes managed by decades, it is clear that in the period 2004-2013 the amounts managed increased more than 5-fold compared to the preceding ten-year period, going from an aggregate volume of payments of almost 180,000 million to almost one trillion euros, which represents the definitive acceptance and consolidation in the use of this tool in our economy. What we in the financial world call “commercial paper” had begun its decline. The discounting of receipts, promissory notes and of course bills of exchange, gave way to systems such as Confirming® which fulfil the same function, but in a much more optimal, efficient and agile way: information on future payment, issuance and settlement of the same at maturity, financing options and the covering of the debtor's insolvency risk.

However, the acceptance of this payment and financing mechanism can be truly appreciated by suppliers, generally SMEs, who understand that the use of this system does not increase their bank exposure, as it does not make them enter a banking relationship with the paying institution. The degree of acceptance is illustrated by the percentage of assignments or advances, which went from an average of 30% in the first ten years, to 44% in the following ten, and reached 54% in the last decade, although in this figure we are including methods that were not initially offered (delay or prompt payment)

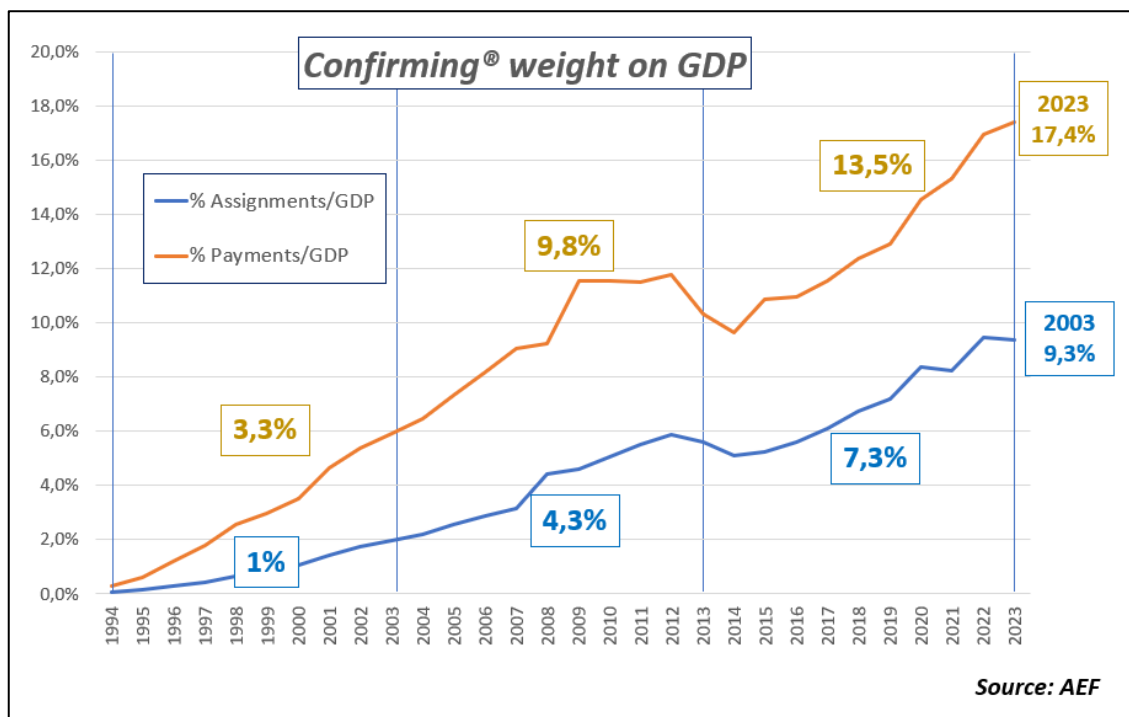


Confirming®, which came about to provide trade financing to companies in a simpler way and on a mass scale, as opposed to the traditional Factoring Contract, is taking the Factoring contract's place and is taking on a significant amount of total trade financing activity. The share of Confirming in the total F&C increased from 34% to 46% between the first and second decade, and has remained at around 50% over the past 10 years. Interestingly enough, Confirming® did not grow at the expense of Factoring, but rather as a substitute for mass paper issuance programs, for collection or payment (receipts or promissory notes). Therefore, Confirming® has come to be understood as a main payment mechanism. Factoring, meanwhile, has not stopped growing either, although it has not done so at the same pace.



But the graph that really shows the relevance of this tool, from the payments in our economy perspective, is the following, where we can see a comparison of the relative weight that payments volumes issued through Confirming® have had on aggregate Spanish GDP over the same period. In the last 10 years, 13.5% of GDP has been paid through Confirming®. Furthermore, it has been growing year after year in this relative weight, reaching 17.4% at the end of last year, December 31, 2023.

The financing activity generated by this tool, comparing the sum of the nominal amounts of credits financed against GDP for the same period, shows how there has been a growth from 1% to 4.3% and then 7.3%, decade after decade, ending in 2023 with 9.3% of GDP financed through Confirming® operations. Today, in Spain, it would be hard to understand our payment and financing system without the presence of Confirming®.



“The last 10 years of Confirming® in Spain”

The data collected in the table below shows the details of the grouped indicators shared by the AEF year after year. These statistics are confidentially provided by those institutions and operators who are members of the AEF. Clearly, there are other operators, non-members, which may be presenting, offering and managing Confirming® services in the market, not included in these figures. However, we can safely say that the vast majority of the market is represented by the activity presented here.

Few tables that show the trajectory of a consolidated service after the first 20 years, can present such a strong, positive and successful volume of activity and business for a period of 10 years. Regardless of each year’s underlying economic reality, the positive or negative developments of the economic and social environment experienced during these 10 years, we can agree that Confirming® is, today, a service that cannot be ignored, overlooked or simply vilified from perspectives that are biased, self-interested or partial.

From the 100,061 million euros in payments in 2014 to the 254,267 million in 2023; and from the 52,814 million euros in business activity in 2014 (advances to suppliers and customer late payments), to the 136,643 million in 2023, the conclusion is absolutely clear: In Spain, the interest for and use of this payment and financing mechanism for suppliers, is today, extremely relevant and is an essential tool for us to know and understand our reality in this area.

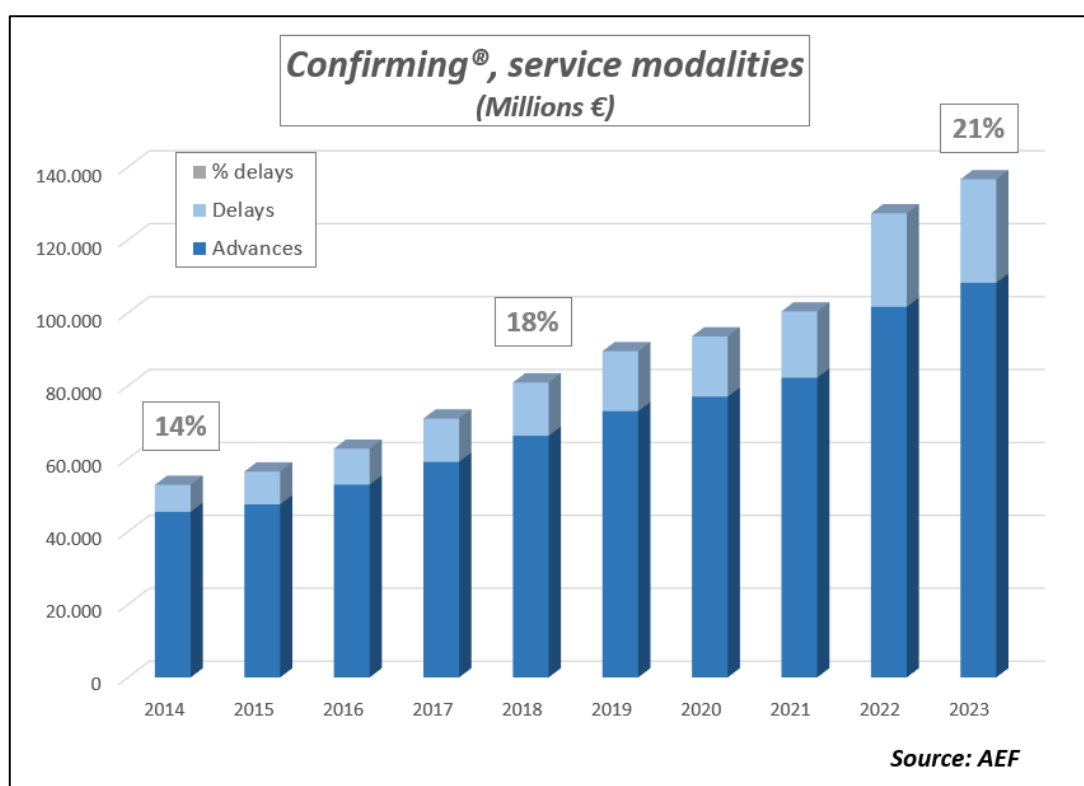
There is no need to work out multipliers or indices of evolution for each parameter (which I would encourage the reader to do), perhaps the most striking fact is that there has not been a single year in which we can see figures lower than the previous year, even considering the year of the pandemic. This proves that Confirming® is an instrument understood by payers and institutions alike as a way to support and alleviate financial pressure for supplier companies, especially those SMEs that might not be able to access credit so easily.

Confirming activity breakdown over the last 10 years

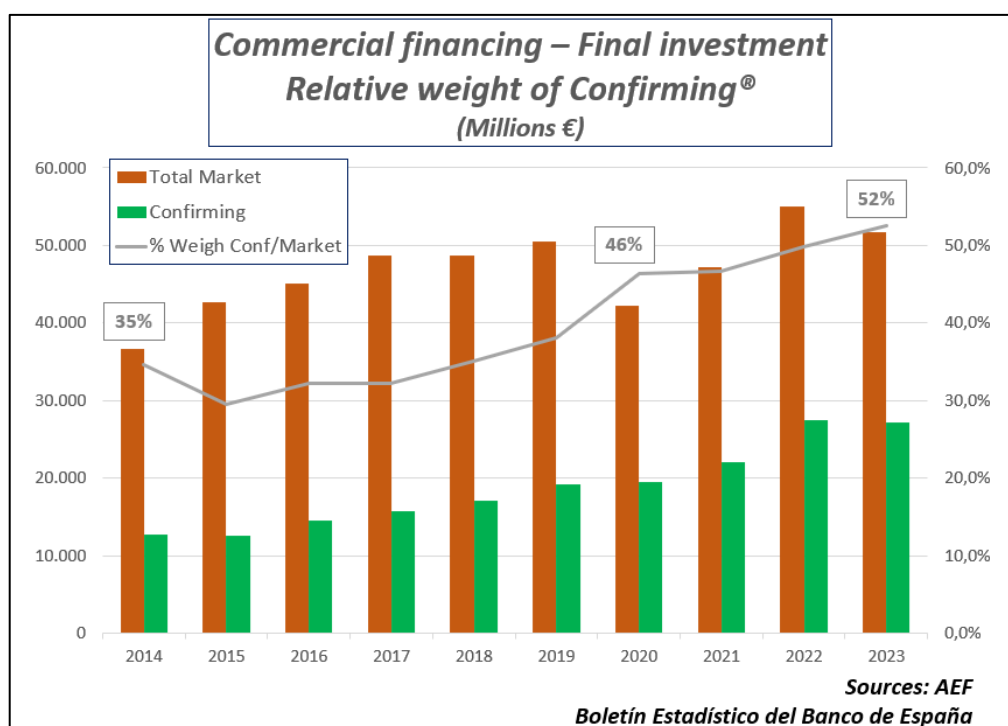
Activity detail Confirming® 10 last years							
Millions €	Payment orders	Activity / Business	Advances	National	International	Delays	Final Investment
2014	100.061	52.814	45.398	38.569	6.829	7.416	12.659
2015	116.968	56.470	47.479	42.138	5.341	8.991	12.573
2016	122.416	62.721	52.862	47.049	5.813	9.859	14.503
2017	134.416	70.997	59.129	51.460	7.669	11.868	15.686
2018	148.657	80.896	66.281	57.229	9.052	14.615	17.071
2019	160.831	89.463	73.012	62.374	10.639	16.451	19.242
2020	162.608	93.540	77.005	66.280	10.724	16.535	19.534
2021	187.065	100.385	82.210	72.328	9.883	18.175	22.039
2022	228.099	127.291	101.647	88.417	13.229	25.644	27.430
2023	254.269	136.643	108.231	93.972	14.259	28.412	27.198

Source: AEF

To conclude this article, allow me to make two final observations. Firstly, I'd like to point out that Confirming® has been enhanced over time with different modalities, service variables and management options, which have provided greater versatility and caused the weighting of certain activity volumes to change. In this case I refer to the 21% weight of the activity that we call "late payments" compared to the 14% it represented in 2014. This option includes the activity of financing the originators of remittance payments where there is not necessarily an assignment/advance of trade credit by the supplier receiving the payment. Clearly, the costs derived from this operation are borne directly by the client/payer, without influencing due dates and payment that may have originally been agreed upon with their suppliers.



The second point I'd like to make concerns the relative importance Confirming® currently has on the total balance of Trade Credit reported by the Statistical Bulletin of the Bank of Spain (Credit Institutions and Financial Credit Establishments (EFC) supervised by the Bank of Spain). Confirming reached 52% at the end of 2023 and this also highlighted the importance of this service in challenging years, with 2020 (the year of COVID) being a shining example: in the face of a fall of 20% in the final global trade financing balance to companies, Confirming remained at similar figures, even somewhat higher than the previous year (+1.5%), which meant it reached a relative weight of 46% in trade financing at the end of that year.



This article could not end without a final reflection and a look towards the future: let us not look for obstacles and encourage fears where the market shows us the way; let's be enterprising and daring in our proposals; Let's understand this market as a place where stopping is "a tendency to lose." We must continue to improve, innovate and develop ideas as well as optimise services and value propositions for the benefit of all parties participating in the chain.