UTILIZING THE OPERATION OF FORFEITING AS A TECHNIQUE OF FINANCING AND UNDERLINING THE IMPACT WHICH THIS OPERATION HAS ON THE ACCOUNTING OF THE EXPORTER

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Romanian integration into European Union brought about a series of changes, including the domain of banking activities.The first operations of forfeiting appeared in Switzerland , and today they are used all over the world's financial centres.Forfeiting strongly developed durong the 1990s as a result of opening of new markets in Central Europe and Eastern Europe due to the existance of enough buyers of goods but lack of financial resources for their aquisition.This paper has as its goal a short description of the forfeiting operation and the advantages which it offers in relation with other techniques of financing which are utilized in our country, such as: bank loans, bank rating, leasing, factoring. The flux of records in the accounting of the exporter which utilzes this technique of financing is also presented.

Key words: forfeiting, debts, commercial effects, contract, accounting records.

1. The description of the forfeiting operation

The term *forfeiting* comes from the French expression "a forfeit" and means giving up certain rights. The forfeiting operations developed to a great extent in the period of the years 1950 – 1960, as a result of the increase of the importers' demands for longer and longer periods of loan with a view to ensuring the necessary financial resources for the payment of the acquired goods or services. As a result, there was an increase in the need of the exporters of goods and services to mobilize their financial resources which were placed in the exports which were made and had a longer and longer term of payment. As a consequence of the opening of new markets in Central and Eastern Europe, in the 90s, the forfeiting operations underwent a significant growth, because on this market there are enough buyers of goods and services but insufficient financial resources for their acquisition. The first forfeiting operations were initiated in Switzerland and nowadays they take place in almost all the worldwide financial centres. London is the most important centre from the point of view of the volume and of the value of the forfeiting operations. At first, the forfeiting operations were done only by specialized financial institutions, but nowadays the banks have developed departments which are specialized in these operations.

"Forfeiting represents a technique of financing in the phase of post-delivery/ rendering goods/ services, by the sale- buying without recourse to the exporter or to the beneficiaries of some falling due debts, incorporated in loan bonds (bill of exchange or promissory note), guaranteed or not by a third party, or debts which can be paid through ensuring methods of payment (the documentary letter of credit or the letter of guarantee)." [333]

The main element that differentiates forfeiting from bank rating is the transfer from one owner to another, without recourse, of the debt and consequently of all the rights and risks that the transaction debt implies until the date of payment. The term "without recourse" assumes that any buyer takes on the risk of loan of the debtor's and/ or the guarantor's, if it exists, as well as the vis major risk that can stop the making of the payment.

Forfeiting offers the exporters/ sellers the following possibilities: removing the risks which are related to the sale, offering loaning terms to their clients, improving the situation of their cash flow.

The simplicity of the solicited documentation is one of the most important advantages of forfeiting. This fact facilitates the rapid conclusion of the transaction. The client will present to the bank, in order to initiate

[333]Mihaela Rovența - Introducere în forfetare &factoring. Tehnici moderne de finanțare a activității de export Editura Economică,2002-pag.160

the forfeiting operation, the loan bond along with a forfeiting request which will comprise, along with the identification information of the beneficiary: the issuing date of the bond, the date of payment of the bond, the mention by which the beneficiary undertakes to acquit to the bank, in exchange for the rendered service, the forfeiting tax and the afferent commissions, will present the bond to the bank with a view to forfeiting at least 15 working days prior to the date of payment.

The development and implementation of the forfeiting product have been generated by the supplier loan, perfected between a supplier and a buyer, by which the supplier accepts to be paid by the buyer at a later date for the delivered goods or the rendered services, usually in a period of time of up to 5 years.

Forfeiting refers to the buying/ selling of the debts which are materialized in bills of exchange or promissory notes, which come from delivering goods and services, with fixed dates of payments. The banks buy these bills of commerce from the supplier or their owner, usually without recourse to the seller, in exchange for the holding back of a forfeiting tax and the collection of a commission.

The forfeiting tax is the tax which is collected by the bank or the specialized institution, according to the risks which it undertakes: the country risk, the transfer risk, the exchange risk, the commercial risk, the interest risk. The forfeiting tax is determined by taking into account the value of the bond, the number of days between the date of forfeiting and the date of payment and the level of interest for the respective currency. When establishing the forfeiting tax, one also takes into account a global risk margin which is calculated according to the conditions of the import-export contract, while keeping in mind the commercial, economic and political risks.

The calculation formula:

$$TF = \frac{VN * (D + M_r) * n}{100 * 360}$$

where:

TF= the forfeiting tax which is due to the bank

VN= the nominal value of the bond which is inscribed on the especially reserved rubric on the front of the bond

D= the level of LIBOR interest which is afferent to the respective currency

Mr=the risk margin

N= the number of days until the date of payment

2. The advantages of the forfeiting operation in relation with other techniques of financing:

Studied in relation with other techniques of financing, the forfeiting operation presents some specific advantages. I will mention some of the particularities that make the forfeiting operation differ from other techniques of financing:

The bank loan is any obligation to pay a sum of money in exchange for the right to be reimbursed the paid sum, as well as the payment of an interest or other expenses which are related to this sum, or any extension of the date of payment of a date and any obligation of acquiring a bond that incorporates a debt or another right to the payment of a sum of money. In comparison with the bank loan, the forfeiting operation has the following differences:

- the fluctuation of the interest: the banking societies give credits, getting interests in exchange, all through the duration of giving the loan. The value of these interests fluctuates depending on the variation of the basic rate of the interest of that currency. The basic rate of the income is established according to the LIBOR or EURIBOR level for various terms. The resorting of the exporter to a bank loan in order to mobilize the financial resources which are afferent to the loan deliveries can be a decision with a negative impact on his financial situation if the rate of the interest evolves in an unfavourable way. The unexpected increase of the interest rate and its long-term maintaining inevitably determines problems in the activity of the one that took out the loan. The bank loan is distinguished in the accounting of the one that took out the loan in specific loan balance sheets, affecting its solvency indicators.

- the constituting of guarantees: in the case of the banking loans, the banking societies usually solicit guarantees under the form of mortgages or deposits and all the costs of evaluating and constituting are the task of the one that took out the loan. As a result, this process is costly for him, and his access to loans is limited because his patrimony can be insufficient.
- the risk of not collecting at the date of payment: the exporter may be in the situation of not paying the loan instalments. This fact can lead to a re-spreading out of the payments of the debts by the bank but this facility is temporary and implies additional costs for the one that took out the loan. If the bank decides to execute the constituted guarantee, major problems in the activity of the exporter are created. In the case in which the exporter resorted to an insurance policy with a view to cover the risk of not collecting, his budget would be affected. Practically, the insurance of the risk of not paying generates costs that affect his budget.

Leasing – is an operation through which a Locator places at a User's (locating client) disposal a good which is bought from the supplier, in exchange for the periodic payment of some leasing instalments by the user to the locator. The leasing operations are regulated by the Government Ordinance no. 51/ 1997, republished, which classifies them into two types: financial leasing and operational leasing. This financing technique is exclusively used for the deliveries of goods of capital: equipments, tools and other similar products. As a result, it cannot be applied to the deliveries of the goods of consumption or services.

Bank rating is a technique of financing by which the owner of a commercial bond gets from the bank, by cession, the equivalent of the bond, diminished by an agio, before the date of payment. The agio represents the sum between the interest and the commission which is collected by the bank. The differences between the two methods of financing are the following:

- the bank rating action is done on short terms, up to 90 days, while the forfeiting can be done on medium or even long periods of loan.
- the financing in the case of bank rating is done only based on bills of exchange and promissory notes, while the forfeiting has as goal the financing of the debts which are incorporated in loan bonds of both the type of the bill of exchange and the promissory note and of the debts which can be paid through insuring methods of payment, with a date of payment.
- usually, the bank rating operation is based on transactions which are made inside a country, between partners which are situated in the same country. The forfeiting finances debts which come from international commercial transactions, between partners that are situated in different countries.
- bank rating is an operation with recourse upon the beneficiary of the loan bond, while forfeiting is an operation with no recourse upon the latter.

Factoring represents the operation of financing the bills to rapidly obtain cash. The main differences between the factoring operation and forfeiting are the following:

- the duration of financing: in the case of factoring we speak about a 30-80 days financing, and in the case of forfeiting, a long and medium term financing.
- the factoring operation is specific to the delivery of the consumption goods and services (the capital goods are excluded), while forfeiting is usually practiced to finance the deliveries of the capital goods. We specify that by forfeiting one can also finance the deliveries of consumption goods/ the rendering of services.
- the financing by forfeiting ensures the mobilization of the debt, 100% of its value, while factoring does not allow the mobilization of the entire value, only of a part of it.
- in the case of the factoring operations, the cost of the operation is totally the exporter's obligation, while for the forfeiting operations, almost all the financing costs are transferred to the importer, by their inclusion by the exporter in the value of the commercial contract.

3. The registering in accounting of the forfeiting operation by the exporter

Although the forfeiting operations give multiple advantages to the users, in country resorting to such a technique is manifested in a reduced manner. The accounting plan which is afferent to the financial accounting approved by OMFP 1752/ 2005 does not provide accounts with a specific name regarding the taking place of the forfeiting operation.

In the exporter's accounting the 413 "Bills to collect" account for the value of the accepted bills of exchange and promissory notes, the 667 "Expenses regarding the given bank rates" account for the value which is held back by the bank at the granting of the bank rate loan to the exporter are used.

The flux of the entries regarding the operation of forfeiting which is reflected in the accounting of the exporter is the following:

- making the bill of delivery of the merchandise to the importer:

4111"Clients" =	%	V
	707" Income from the sale of the merchandise"	
	708" Income from various activities"	
	766" Income from interests "	

- the emitting of the commerce bill (the debt bond) :

413 „ Bills to receive" = 4111 „ Clients"

V

- the extra-accounting bookkeeping is done at the same time:

8028 „ other received bills " V

- the bookkeeping of the billing of the forfeiter's debts, at the same time sending him the endorsed commerce bills:

4111" Clients „/Forfeiter = 413 „ Bills to receive V

- collecting the equivalent of the forfeiter bills, excluding the forfeiting tax and the collected commissions:

5124 „ accounts at banks in devices" = 4111" Clients" /Forfeiter V -TF – C

- registering the forfeiting tax and the commissions which are due to the specialized institution:

a) if the forfeiter calculates the forfeiting tax and commissions in a global way, the bookkeeping operation will be:

668" Other financial expenses" = 4111" Client /Forfeiter" TF + C

b) if the forfeiter distinctly calculates the forfeiting tax and the commissions the bookkeeping entry will be:

%	= 411 „ Clients / Forfeiter"	TF
667" Expenses regarding the given bank rates"		TF
627"Expenses with the banking and assimilated services "		C

where : V– the value of the right of debt upon the importer

TF – the forfeiting tax

C- the commission which is collected by the bank

Conclusions

The globalization of the world economy and of the financial market have determined the banking societies to orient themselves towards the utilizing of new techniques of financing. Due to the complexity of the operations which take place between the clients and suppliers, the financers have had to look for new forms of financing, which are different from the classical ones.

In the end I would like to synthesize advantages which are given by using the forfeiting operation:

- the foreign currency liquidities of the exporter are improved, the “on term” transaction becoming a “transparent” transaction;
- the possibility of the total financing of the transaction (up to 100%);
- the transfer of the risk of not paying, in a 100% percentage (there is no regress upon the exporter, once he has sold the documents, with the exception of the fraud cases);
- structuring the transaction according to the solicitations of the owner of the debt;
- eliminating the risk of fluctuation of the interest, of transfer, of not paying;
- eliminating the costs of managing and monitoring the payment;
- fixed interest till the date of payment;
- no real guarantees are solicited (mortgages, deposits, etc.);
- ensuring the confidentiality, according to the wish of the participants to that respective transaction;
- relatively simplified documentation.

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