



The FDA
Boston House
The Little Green
Richmond
Surrey TW9 1QE

Tel: 020 8332 9955

Fax: 020 8332 2585

Website: www.thefda.org.uk

Annual Report

For the financial year ended 2005

Contents

Foreword - by Kate Sharp	3
A Chairman's Perspective - by Adrian Sainsbury	4
FDA Public Relations	5
FDA Members	6
FDA Affiliates	7
FDA Public Affairs - 2005 Activity	8-9
FDA Events Review 2005	10-11
FDA Educational Foundation Update - Day Courses and Distance Learning	12-13
Industry Statistics 2005	14
FDA Statistics - The Last 10 Years	15
FDA Accounts	16-19
Legal Developments 2005	20-22
Executive Members and Governors 2005	23

Foreword - by Kate Sharp



2005 was another busy year at the Factors and Discounters Association and the industry as a whole. While we were working away behind the scenes, all of you have been busy taking the industry to new heights. This was clear from the results of our statistics, which saw the industry hit the £11 billion in

advances market, with the industry now worth £148 billion, an increase of 12% on last year. Also the 2005 statistics allow us to draw conclusions over the last decade of statistics. The analysis found that the invoice finance sector grew by 460 per cent between 1995 and 2005; domestic invoice discounting grew by 609 per cent over that same period and factoring had grown by 132 per cent. The total funds advanced to clients had also increased by £9 billion, which equals a growth rate of 422 per cent.

In terms of FDA activity, 2005 saw the FDA's PR programme stepped up a notch, with more coverage achieved than in previous years. This coverage included mentions in The Daily Telegraph, The Mail on Sunday, Financial Mail on Sunday, the Independent on Sunday and the Financial Times. In May we also held the first ever Industry Marketing Forum, designed purely for marketing staff of member companies. The forum aimed to improve communication channels with our Members in this area, and to identify how members could get the most out of the FDA from a PR and marketing perspective. The forum was well received by those who attended.

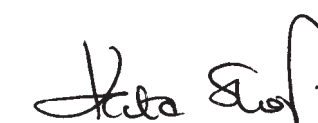
As usual this year the FDA events calendar was more than full. We travelled the length and breadth of the UK and Ireland and held four Staff Forums, with high profile speakers such as Lord John Stevens and Rageh Omaar. The FDA Annual Dinner in May hosted 750 of the industry's finest at the controversial venue of ExCel. The Annual Golf Day at Wentworth was enjoyed by many of the industry's golf enthusiasts and the 9th Annual Conference rounded off the year nicely as the theme 'Breakout' was addressed in Paris. Received by many as the best conference to date, William Hague MP did a fantastic job of hosting the event and finishing of the FDA year with his after-dinner speech with stories from the corridors of power.

Speaking of the corridors of power, in the legal world the FDA continues to achieve success in influencing legislation and raising the industry's profile in Government circles. The highlight of the year in this area was the lobbying success of the bank members in respect of the Capital Requirements Directive. Their efforts succeeded in getting a critical amendment to the Directive tabled and accepted. A full report of the 2005 lobbying programme can be found in the piece by DLA upstream.

In 2005 the Educational Foundation continued to evolve, introducing three new market-led day courses. Also in 2005, the first Day Course supporting distance learning students was introduced, Certificate Course – Module Three Review. We also offered members value-added services, such as reduced rates with external training provider MTD and introduced a European focus through collaboration with the CFA and the IFG to develop a European Field Audit course. This course will be delivered in 2006.

This year also saw the FDA embark on its first E-Learning initiative. The course, focusing on the food industry and the risks inherent in funding that industry, went live on the website in 2006. More e-learning courses will follow. This year the FDA also added publishing to its many areas of expertise with the publication of the book - Cashflow Finance. The book examines invoice finance and stock finance from a technical, legal and operational point of view and is a must for any self-respecting bookshelf. The FDA website was further improved, with the introduction of an on-line Members Library and Industry Vacancy Pages. Both services aimed at improving Members services to staff at all levels within an organisation. More on-line developments are also planned for 2006 to make the FDA's web presence increasingly user friendly.

As CEO of the FDA it is my great pleasure to see the team here continuing to deliver new, and I hope, value-added services to the members. I and the team look forward to delivering another exciting year of activity for the benefit of Member companies in 2006.



Kate Sharp

A Chairman's Perspective - by Adrian Sainsbury



It has been a great privilege to have been Chairman of the FDA, the representative body for an industry that comprises a vibrant and exciting marketplace.

The FDA has recently celebrated the 10th anniversary of its formation from the mergers in 1996 of the ABFD, the AIF and the CFA European

Chapter. The FDA now represents 44 Members all providing Invoice Finance and Asset Based Lending solutions to companies in the UK and Ireland.

As well as providing finance for Small and Medium sized enterprises, FDA Members are increasingly providing larger facilities to larger clients, and boundaries are being stretched by lending into new sectors with enhanced products.

The FDA's impressive achievements over the last 10 years include:

- Total industry sales turnover has grown by 460% since 1996 to £148 billion at the end of 2005 and invoice discounting turnover has grown by 609%
- Funds advanced have grown by 422% from £2.1 billion in 1996 to £11.2 billion at the end of 2005
- Client numbers in the industry now exceed 43,000 compared with just 13,000 ten years ago
- Record numbers of people are undertaking FDA training and qualifications
- The FDA has successfully lobbied on a wide range of issues such as Basel II and Registration of Security Interests

To celebrate the industry's achievements and our 10th anniversary, the FDA will be investing to raise the profile of the benefits of invoice finance and ABL products under the banner of FDA-10. FDA-10 commenced on the 15th May 2006 with the largest dinner in the FDA's history at the Grosvenor House Hotel where the guest speaker was The Right Honourable Sir John Major. On the same day a full page advert was placed in the Financial Times highlighting the contribution the invoice finance industry makes to the UK and Irish economies. FDA-10 will comprise a range of high profile events to take the FDA to new audiences.

The industry remains well placed to deliver continued strong growth in the next decade. The factors that are likely to drive growth of the invoice finance marketplace include the launch of the Basel II capital adequacy framework, UK and Irish companies having increasing requirements for funding of their overseas trading and, most importantly, the continued innovation of FDA members offering enhanced solutions to clients.

On a personal note, I have really enjoyed working with Kate Sharp and the FDA team who are taking the industry body to new levels of professionalism. The FDA programme of activities including the FDA Dinner, the FDA Conference, the FDA's training programme, PR and lobbying activities are becoming the envy of other similar bodies and are adding real value to the Members of the FDA.

Finally, I would like to wish my successor, Jeff Longhurst every success in accelerating the FDA's activities and also making FDA-10 a great success.

Adrian Sainsbury

FDA Public Relations

A Year in the Media



The public relations initiative that this trade association now undertakes has never been more strategically focused or important for our members.

In 2005 the FDA Public Relations campaign continued on apace, and with much success. During the course of the year, coverage was achieved in a number of high profile national newspapers, including the Financial Times, the Daily Telegraph, the Financial Mail on Sunday, the Independent on Sunday and the Mail on Sunday. Coverage was mainly comprised of bylined pieces and cover stories. Coverage was also achieved in over 30 national magazines throughout the year. There were also numerous mentions of the FDA in regional papers throughout the country.

This success was due to well considered and well executed media campaigns that were topical and well researched. In order to achieve the results, the Association was busy behind the scenes conducting its own research, centred around topical issues. Some of these key issues were the concerns that were keeping company directors awake at night. This research was timed nicely to tie into the, then current, election campaign and impending result. As it turned out, the company directors we surveyed were more concerned about Labour getting re-elected, than they were at the prospect of a Conservative government. This was linked, in no small part, to their belief that a Conservative government would go further to alleviating the burden of red tape and their other legislative concerns, than a Labour government would. Back in April of 2005, this research outcome was highly topical, and the headline - Fear of a Labour Victory Keeps More SMEs Awake at Night than the Prospect of a Conservative Government, enabled the FDA to achieve several good pieces of national coverage.

In addition, in March, for the first time ever we also issued an Irish press release looking solely at the growth of the Irish market. Later on in the year, in August, the FDA Members also surpassed the £10 billion in funds out milestone. This was another significant story and the headline - Invoice Finance Advances Over £10 Billion to UK Businesses - Invoice Finance Advances Grow to a £10 Billion High, led to some very positive coverage. The production of these statistics also enabled the FDA to do a decade of comparisons of growth - leading to the current profile raising activity of FDA-10 in 2006.



The success of the 2005 PR initiative was also partly due to the co-ordination of the FDA PR campaigns with other FDA lobbying activity. The FDA is well aware that the business and financial media can play a role in helping to develop a corporate reputation as a primary source of information for many

stakeholders and the wider business community, in addition to supporting key industry issues. As the FDA is playing an increasingly significant role in the formulation of business policy and legislation, continuing to build this reputation as the voice of the industry will be a primary consideration moving forward.

The media landscape over the last few years continues to change quite considerably. There is more competition to fill fewer editorial pages. Competition is fierce, so it is important that the FDA continues to maintain a focus on this area of activity. PR activity must remain topical and strongly focused if successes such as 2005's coverage are to be repeated. To this end we will be working with a new PR company in 2006 and are looking forward to working with a new team who will bring a fresh approach and a renewed energy to the programme.

FDA Members

The invoice finance market is a rapidly evolving one, with an increasing amount of FDA Members seeking out new markets, and an equal amount of overseas suppliers coming into the market. In order to keep with the times in 2005 the FDA revised its membership structure and for the first time made it possible for not only UK and Irish based companies to be members, but also allowed European based organisations to take advantage of FDA products and services.

The Membership structure was divided into three main membership options, they were Full Member, Group Member and Associate Member. Each option enables organisations to take advantage of the FDA offering in a different way, depending on their requirements.

The FDA Full Membership is open to UK and Irish companies only. Up to three Full Members from a group may take this Membership option and the option includes:

- The right to vote at an Annual Meeting
- The right to seek election onto the Executive Committee
- The right to participate in functions, conferences, day courses and educational programmes at an FDA Members' rate
- The right to use the FDA logo on marketing material

A Full Member must comply with all the conditions laid out in the Articles of Association of the FDA. In addition a Full Member will be required to monitor and vouch for the compliance of all associated Group Members.

The world-wide Group Membership is designed for any company belonging to a group where there is at least one Full FDA Member. This Membership Option includes:

- The right to participate in functions, conferences, day courses and educational programmes at an FDA Members' rate
- The right to attend, but not vote at an Annual Meeting
- The right to use the FDA logo on marketing material

The world-wide Associate Membership is for any company where there is no Full FDA Member. This Membership Option includes ONLY:

- The right to participate in functions, conferences, day courses and educational programmes at an FDA Members' rate
- This will be open to companies worldwide (except where Full or Group Membership options apply) who wish to take advantage of a limited membership for a fixed fee.

An Associate Member must be engaged in the provision of asset finance. They will not be required to comply with the conditions

laid out in the Articles of Association, however the FDA Executive reserves the right to refuse or withdraw Associate Membership without reference, and at any time, should they see fit. This form of membership does not allow for the use of the FDA logo on corporate marketing material.

The changes in membership structure brought about a rearranging of our UK and Irish Member base. The list of Members, who are now providing over £11 billion of working capital finance to businesses, can be found below.

MEMBERS

AIB Commercial Services	First Trust Bank
Anglo Irish Bank	Five Arrows Commercial Finance
Aston Rothbury Factors	Fortis Commercial Finance
Bank of America Business Capital	GE Commercial Finance
Bank of Ireland Finance, Dublin	GE Commercial Distribution Finance Europe
Bank of Ireland Commercial Finance, Belfast	GMAC Commercial Finance
Bank of Scotland Cashflow Finance	HSBC Invoice Finance (UK)
Bank of Scotland (Ireland) Commercial Finance	IGF Invoice Finance
Barclays Sales Financing	J P Morgan Asset Based Lending
Bibby Financial Services	Lloyds TSB Commercial Finance
Burdale Financial	London Scottish Invoice Finance
Cashflow Partners	National Irish Bank
Cattles Invoice Finance	Northern Bank
City Invoice Finance	RDM Factors
Close Invoice Finance	Regency Factors
Clydesdale Bank Invoice Finance	RBS Invoice Finance
Coface UK Receivables Finance	Skipton Business Finance
DCD Factors	SME Invoice Finance
Dynamic	Ulster Bank Commercial Services
Enterprise Finance Europe	Ulster Bank Invoice Finance
Eurofactor (UK)	Ultimate Finance Group
Euro Sales Finance	Venture Finance

FDA Affiliates

The support that the FDA receives from its Affiliates enables the Association to continue its work promoting the industry and running educational programmes for those working within the industry.

Opportunities for companies to get involved with sponsorship of the FDA are always available. The Affiliates Programme runs annually from January to December, however organisations can become Affiliates at any time throughout the year.

AFFILIATES

Addleshaw Goddard	Ernst & Young	Lawrence Graham LLP	Tenon Recovery
Atlantic Risk Management Services	Eversheds	Matheson Ormsby Prentice	The P & A Partnership
Bache Treharne LLP	Experian	Mazars	UHY Hacker Young Group
Baker Tilly	FA Simms & Partners	Menzies Corporate Restructuring	Vantis Numerica
BDO Stoy Hayward LLP	Factoring UK	Morgan Cole	Vincent & Beatty
Begbies Traynor	Fanshawe Lofts	Morton Fraser Solicitors	Winston & Strawn London
Bermans Solicitors	Gateley Wareing LLP	Naismiths	Wragge & Co
Blake Laphorn Linnell	Grant Thornton	Paul Davidson Taylor	Xbridge
Card and Company (Commercial Finance)	Halliwells LLP	Penningtons LLP	
CI Group	Hammonds Solicitors	Pinsent Masons	
Cobbetts	Henderson Boyd Jackson	PKF (UK) LLP	
Connell Associates	Henry Butcher	PricewaterhouseCoopers	
Dancerace	Hilton-Baird Financial Solutions	Risk Factor Solutions	
Deloitte & Touche LLP	HPD Software	Rochman Landau	
DLA Piper Rodnick Gray Cary UK LLP	ICC Information Systems	RSM Robson Rhodes	
D.W.F.	Jones Day	SJ Berwin	
D.M.H. Stallard	Kennedys	Smith & Williamson	
Edward Symmons & Partners	KPMG LLP	Surecomp Business Solutions	
	Kroll's Corporate Advisory and Restructuring Group		

Once a company is an Affiliate they are then invited to get involved with FDA activities and events.

We would like to thank all our Affiliates for their contribution to the FDA and the ongoing commitment they have shown on behalf of the best interests of the industry.

FDA Public Affairs - 2005 Activity - by Upstream



As members will know, Upstream is the government and public affairs practice of the global legal services organisation, DLA Piper Rudnick Gray Cary ("DLA Piper"). Upstream

has offices in London, Edinburgh, Brussels and Beijing and is integrated with DLA Piper's well-established federal affairs and legislative practice based in Washington DC.

Upstream has worked with the FDA for over six years to ensure that political contacts, policy-makers and other key organisations and stakeholders understand the role of the Association and the industry it represents. Specifically, work has focused on communicating the important services the industry provides to businesses in the UK, Ireland and increasingly beyond. Moreover, to do this effectively, it has also focused on articulating its requirements from a policy and legislative perspective.

Activities are designed to ensure the concerns of the Association are heard by the policy-makers and stakeholders who condition and influence the legislative and policy environments in which the industry operates, and who also influence perceptions of the industry more widely. On this latter issue, the public affairs programme complements the FDA's public relations initiatives.

In 2005, the FDA has engaged on a number of key policy issues in the UK. In addition, the FDA has raised its profile and established key contacts in the EU Institutions through high-level meetings with key EU decision-makers.

Throughout 2005, Upstream worked with the FDA to maintain its profile and cultivate good relations with the UK Government, its departments and related bodies. We maintained close relationships with the Department of Trade and Industry, particularly the former Ministers with responsibility for SME issues, Rt Hon Alun Michael MP and Barry Gardiner MP, prior to the May 2006 ministerial reshuffle. A key component of activity in 2006 will be to build on these strong links with the newly appointed Minister of State for Industry and the Regions, Rt Hon Margaret Hodge MP.



The FDA also went to No 10 Downing Street in October 2005 to meet with the Prime Minister's key policy advisor on trade and industry issues, Geoffrey Norris, to introduce the industry and discuss issues relating to the Law Commission's recommendations of registration of company security interests and the Company Law

Reform Bill. This meeting was followed up in December, when the FDA met with the Financial Secretary to the Treasury, John Healey MP, to again introduce the industry and discuss similar issues.

As well as links with Government, the FDA also ensures that leading Parliamentarians are briefed on its work. To this end we met with Andrew Love MP, the Chair of the All-Party Parliamentary Small Business Group and, following up on previous contacts with the Conservatives, the FDA had discussions with the Liberal Democrats' then Chief Spokesperson on Trade and Industry issues, Norman Lamb MP.



The FDA has worked closely with the Law Commission over the last three years on recommendations to reform the Company Security Interests regime, the final formulations of which were under consideration for inclusion within the Company Law Reform Bill. The FDA has made extensive representations to Government over the year, particularly concerning the recommendation to render ineffectual contractual prohibition of assignment clauses. The FDA continues to work with the DTI and the Department for Constitutional Affairs to maximise the likelihood of the Law Commission's recommendations being implemented in full at the earliest possible opportunity.



Another policy issue of key focus in 2005 was work surrounding the revision of the Construction Industry Scheme. Work has been undertaken with HM Revenue and Customs to discuss proposed changes that would allow the increased use of factoring and invoice discounting facilities. Work has also continued on a range of additional policy issues with stakeholders including the Insolvency Service and Small Business Service.

Looking beyond the purely political and policy realms, the FDA has worked to build closer relationships with other key stakeholders, not least the Small Business Council and the Better Payment Practice Group, who were both valuable allies in lobbying on issues surrounding prohibition of assignment.

The FDA has also placed particular emphasis on raising the profile and understanding of the industry amongst key audiences in Brussels. The FDA undertook two successful rounds of meetings during 2005, in May and October, which

covered general issues relating to the industry and also the Capital Requirements Directive specifically. On both occasions the FDA met high level officials in the European Commission, key Members of the European Parliament, and officials in the Permanent Representations to the EU of influential Member States such as Germany and France. In addition, the FDA also met with the main European body representing SMEs, UEAPME (translated as The European Association of Crafts, Small and Medium-sized Enterprises). Through these meetings, the FDA was able to effectively communicate the benefits of the type of finance offered by its members to policy-makers and to position the FDA as the leading authority and source of expertise on issues of SME finance in Europe.

One of the particular policy areas where the FDA was active in the EU in 2005 was the Capital Requirements Directive/Basel II Accord. The original draft Directive issued in the spring of 2005 would have presented significant concerns for the industry as the model of "purchased receivables" put forward in the Directive was significantly at variance with the operation of receivables finance facilities in the UK marketplace. With the support of the UK Government, the FDA, alongside representatives of the clearing banks' invoice finance businesses, began a co-ordinated lobbying campaign. The objective was to ensure that proposed amendments which would allow UK recourse facilities to be treated as "secured lending" were adopted. An amendment was successfully tabled by a UK MEP on behalf of the industry and was eventually approved by EU Finance Ministers at a Council meeting in October 2005, marking a highly successful conclusion for the FDA's first lobbying activities in Brussels.

In summary, the public affairs programme has seen a successful year on both the UK and EU stages, and the FDA will continue to advocate the industry's interests throughout 2006 and beyond.

For any further information on the FDA's public affairs programme, please contact either Kate Sharp or Matthew Davies at Upstream on matthew.davies@dlapiper.com

Events Review

Every year the FDA hosts a variety of events for the invoice finance industry. These events range from the black tie Annual Dinner in London, where this year saw the re-introduction of the FDA Educational Foundation student awards, to smaller, informal networking Staff Forum events throughout the country. There is also an Annual Conference towards the end of each year, which is held abroad and addresses topical issues within the industry.

ANNUAL DINNER



The FDA Annual Dinner for 2005 was held on Thursday May 12th at ExCel in London. Curiosity was the main flavour of the evening, as everybody arrived keen to ascertain their own opinion of the new venue and unsure as to how the conference location would affect the atmosphere of this traditionally hotel-based event. Despite the change of scene proving a welcome change, the consensus amongst guests was to bring the event back to central London in following years. However, despite the venue being further out, the 70s-themed evening, and shocking blue and electric pink adorned room, still saw attendance at over 750 people.

The evening began with a Welcome Reception, during which time the previous year's most successful students were receiving their awards at the VIP Reception, with lecturers and MDs alike congratulating the award winners. This was a change from the previous year where these awards were announced at a separate and very well received Educational Awards Dinner. Next year, the Educational Awards Dinner will be re-introduced as a separate annual event and we would like to take this opportunity to congratulate the award winners and thank the generous sponsors of the awards - **Who are listed below:**

Top Foundation Student Award 2004 - Lisa Cutts, HSBC
Sponsored by Baker Tilly

Top Certificate Student Award 2004 - Simon Parker,
Lloyds TSB Commercial Finance Sponsored by Bermans

Top Structure of Accounts (Diploma) Student 2004 -
Ian Lewis, RBSCS Sponsored by KPMG

Top Asset Based Working Capital Finance (Diploma) 2004 -
Pritesh Patel, City Invoice Finance Sponsored by Kroll

Top Residential Student Award 2004 - Emma Bell,
Barclays Sales Financing Sponsored by Grant Thornton

Top Diploma Student Award 2004 - Paul Housley, Liquidity
Sponsored by Hammonds

The lecturer awards were also awarded to the following people:

Lecture of the Year 2004 - Simon Boon, DLA Piper

Best Newcomer Lecturer 2004 - Alan Couzins, Kroll

Before the dinner the out-going FDA Chairman, David Robertson, began the evening's speeches by taking a look at the industry through the ages. This encompassed the year's overall theme of Evolution. Then, after dinner, it was time for our after dinner guest, Alan Hansen, to take the stage and he amused the audience with his trips down memory lane. David then said one final thank you before the party got started with The Glamsters and the ABBA girls providing the music for the evening.

Although the bar shut at 2am, the party continued at the Novotel bar well into the early hours. As always, wherever you put the staff from the invoice finance industry you can guarantee one thing, a good time will be had by all.



GOLF DAY

The 2005 FDA Golf Day took place at Wentworth Golf Club in Surrey on June 23rd and those who joined us enjoyed some good golf, lots of laughs and an afternoon of informal networking.

There was a wonderful attendance, with 58 players taking part on the day. This, combined with temperatures reaching 31°C, made for a thoroughly enjoyable atmosphere and the perfect conditions for a round of golf.

The day began with breakfast at 7am and then tee offs began on Wentworth's East Course. Once players had completed the course there was time for a few drinks in the sun before a three-course buffet dinner was served in the Club House Ballroom. Kate Sharp, Chief Executive Officer of the FDA, gave a short after-dinner speech and gave out the competition prizes.

Congratulations to all of the winners of the prizes on the day!

STAFF FORUMS

In 2005 the FDA held four Staff Forums throughout the country. These events are primarily informal social gatherings for all staff of FDA Member organisations.

The first Staff Forum event was held in the south-east at Lingfield Park racecourse on April 21st 2005 with Lord John Stevens as our guest speaker. The FDA Chairman at the time, Adrian Sainsbury, was there to introduce our guest and lend support to the Association. Lord Stevens gave a fascinating talk about leadership. A special thank you must also go to Hammonds, who generously sponsored the event.

On June 16th 2005 Rageh Omaar was our guest speaker at the second FDA Staff Forum of 2005 at the Renaissance Hotel in Manchester. Rageh gave a fascinating insight of his experiences of reporting on the Iraq war and spoke of the BBC's role in reporting foreign news. The evening was a huge success and many thanks must go to ICC Credit who sponsored the Manchester event. Due to popular demand the third Staff Forum of the year was held, once again, in Scotland. The FDA held a Staff Forum in Glasgow for the first time in 2004, and it was such a success that we ventured north of the border again on October 13th 2005. On this occasion the record breaking explorer, Sue Stockdale, joined us for an evening, sponsored by PricewaterhouseCoopers and hosted by Kate Sharp of the FDA.

The last event of the year took place in Dublin on October 27th, when Bill Cullen joined us to share his amazing story of rising from the streets of Dublin to managing Ford. His presentation focused on encouraging others to seize their opportunities. Many thanks must also go, once again, to the sponsors on the night - Matheson Ormsby Prentice, who have sponsored every Irish Staff Forum we have had.

Although we are happy to provide this kind of informal networking event for all levels of staff throughout the industry, in 2006 we will undertake a review of this element of our events schedule with a view to modernising the way we are interacting with staff at all levels of the Membership. Watch this space for further details.

9TH ANNUAL CONFERENCE - BREAKOUT

2005's Annual Conference - Breakout (with joint Platinum Sponsors Menzies Corporate Restructuring and Active Receivables Management) took place at the Sofitel Rive Forum Gauche Hotel in Paris and was extremely well received. As always with the FDA Conference, the event was well attended, with over 350 delegates. On the night of the 7th December guests enjoyed a glamour Welcome Reception, held at Mandala Ray, a stones throw away from the Christmas lights that extended the length of the nearby Champs Elysees. The evening was generously sponsored by Bache Treharne, who also got everyone into the Parisian spirit by handing out berets!

The following morning the FDA's Chairman, Adrian Sainsbury, officially opened the conference by 'breaking out' of the conference set; and the opening set the standard! Adrian was followed by Roger Bootle's portrait of recent economic history, before a trio of presentations from Deloitte Touche, Lloyds TSB and Venture Finance presented an interesting range of opinions and advice on Growth into New Markets. The day's insightful presentations continued, with perhaps arguably the best performance of the day delivered by Ellis Watson. Ellis told of lessons learned during his time as MD of the Mirror Newspaper Group and during his part in the launch of 'Who wants to be a Millionaire'. Ellis' presentation will be remembered for his down to earth advice and his pragmatic solution to 'Dementors' in the workplace.

The evening of the Gala Dinner maintained the high standards set during the day. With the quality of the food exceeding the usual expectations of a 350 plus serving and some typically Parisian entertainment provided by a discreetly clad troupe of Can Can girls. William Hague rounded off the evening with a seemingly effortless, rapid fire and highly amusing series of anecdotes from the corridors of British politics.

The event was a great success and a very big thank you is due to the Platinum Conference Sponsors - Menzies Corporate Restructuring and Active Receivables Management, the Gold Sponsors - Dancerace, and Bache Treharne, for sponsoring the Welcome Reception.



Education Update

DAY COURSES 2005

The FDA is continuously looking to refresh and update its Day Course training programme and in 2005 a number of selected Affiliates were invited to submit proposals to develop a range of new courses for delivery in late 2005 and early 2006. These new proposals were based on the market research that was undertaken the previous year and a number of proposals were accepted.

Behind the scenes, during the course of 2005 we worked to bring the following new courses to the Membership in 2006 -

- Debtor Litigation
- Basic Understanding of Legal Documentation
- Cashflow and Credit Management
- Take On and Client Management
- MBOs
- Syndication

In addition, a course was also developed to assist students with the technical and legal aspects of the module three of the Certificate Course.

While these courses were in development, we also saw a continued and healthy interest in our regular day course programme, with 440 delegates coming through the doors during the year. We also had attendance from overseas factoring companies from as far a field as Norway and Sweden.

During the course of 2005 we were also happy to deliver more value to members in the area of education by offering industry training discounts. The FDA assessed a number of management training providers and partnered with Management Training & Development Ltd to provide the industry with discounts on their Management Training programmes.

Members were offered a 20% discount on their Essential Management Skills course and we were delighted to be able to offer this new kind of training benefit as part of being an FDA Member.

2005 also saw the FDA form a partnership with the CFA and the IFG to work together to develop an industry focused international course. Various meetings were held and the FDA was invited to visit Chicago and New York in the autumn of 2005 in order to review the new revamped CFA Field Audit course. The feedback from this course was extremely positive and a decision to deliver this course in 2006 for UK and international invoice discounting companies was made. It was decided that the course would be held in Athens in March 2006.

During the year members were also encouraged and invited to submit names of individuals to be trained to become FDA approved trainers. This would mean that they would then be eligible to deliver on the FDA day course programme. The FDA selected and trained four individuals from its membership. The 'Train the Trainer Workshop' was held in London in December 2005, where the individuals were put through a series of exercises that included designing a presentation, devising case studies and gathering research for the design of a course. All four individuals successfully passed the Train the Trainer Workshop and will be added to the FDA quality assured database of trainers in 2006.

While this work was on-going, the FDA Educational Foundation was also busy delivering some bespoke training for a company. The FDA Educational Foundation offers specifically tailored courses to members who request it and in early April, the FDA was approached by the Bank of Scotland Cashflow Finance to deliver two one-day courses for new entrants to the company. Over 24 delegates attended the specialised training, which was very well received. The FDA also recognises the needs of its members based in Ireland and in 2005 organised two courses specifically for members in Ireland. They were the Legal Aspects course and the Audit Skills course, both of which were over subscribed.

If you have a requirement for any kind of customised training beyond the Day Course schedule please contact the FDA in order to discuss your specific requirements.

DISTANCE LEARNING 2005

2005 was also a very busy year for the Educational Foundation in terms of Distance Learning developments. Changes took place to the format and registration processes surrounding the FDA Diploma course. The Structure of Accounts module was replaced by a new 'Measuring Performance' module, still an *ifs*-run course, with flexible registration. This is now an e-learning course and students can take the 'e-assessment' (multi-choice) examination whenever they feel ready. There is also a written assessment which accounts for 50% of the final grade.

During the latter quarter of 2005 we were also preparing to take over the management and responsibility of the Cashflow Finance (previously Asset Based Working Capital Finance module) of the Diploma from the *ifs*. At this time we were very pleased to launch the 'Cashflow Finance' book, an up-to-date comprehensive book on the industry as it is today. Written and contributed to by many industry experts, the book provides a huge amount of information in a reader-friendly format and examines invoice finance and stock finance from a technical, legal and operational point of view. It also looks at other forms of cashflow finance at an introductory level. The book can now be purchased as an individual item, or used as part of the FDA Diploma, as the source of information on the Cashflow Finance module of the course. The book as a stand alone item is priced at £53, including p&p. If you would like to order a copy, please e-mail admin@thefda.org.uk with the number of copies you require.

During the year the FDA Educational Foundation was also busy developing a new offering to add value to our Members' training. This work has now been launched as the FDA's first e-learning course. E-learning is a fast emerging trend in the training arena, as it offers flexibility for students and enables each person to progress at their own pace. The first FDA e-learning course – Industry Risk – the Food Industry, has been designed to help any member of staff who has contact with clients in the food industry. In particular

Account Managers, Risk Managers and Auditors would benefit, but this will be of interest to other staff who want to learn more about both the food industry and the risks it poses for invoice financiers. As the course is paid for as part of FDA membership fees, it is freely available to all staff of our member companies and can be accessed at any time. Therefore it can be taken by anyone who is employed at a member company. It will be updated frequently and so we would encourage staff to review the course at least once per year.

This is just another example of how the FDA Educational Foundation is committed to continually assessing our training offering and improving our educational contribution. In 2006 we will be looking at bringing the FDA Foundation course on-line and also developing the next Industry Risk course for the Road Transport and Logistics industry, and we look forward to continuing to develop our services in the distance learning area.

The FDA would like to thank all of the Affiliates who are involved in the FDA's Educational Foundation activity. Without the time and dedication of many industry experts our education programme would not be possible and the generosity of these individuals is very much appreciated.

Industry Statistics 2005

The production of the 2005 FDA statistics demonstrated that continuing numbers of UK and Irish entrepreneurs are turning to invoice finance as their means of funding growth. The invoice finance industry is now worth more than £148 billion, an increase of more than 10% on last year. Total clients now exceed 43,000 and advances are now up to over £11 billion.

Clients' sales volumes (£m)	2000	2001	2002	2003	2004	2005	% change
Domestic factoring	15,137	16,374	17,222	17,632	17,740	18,307	3%
Domestic invoice discounting	56,830	68,464	82,995	94,647	109,664	124,095	13%
Export factoring & ID	3,570	3,250	3,206	3,723	4,170	5,417	30%
Import factoring	711	701	713	744	848	973	15%
Total clients' sales	76,248	88,789	104,136	116,746	132,422	148,792	12%

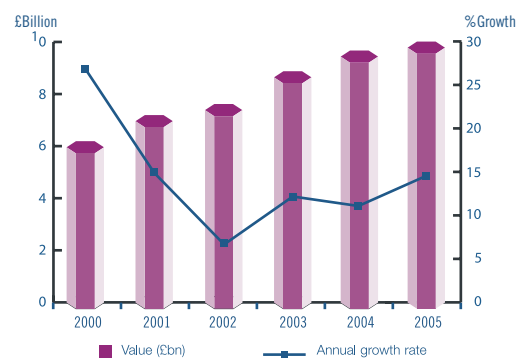
Client numbers at the year end

Number of clients by product	2000	2001	2002	2003	2004	2005	% change
Domestic factoring	15,715	16,529	17,472	18,178	19,547	20,632	6%
Domestic invoice discounting	8,298	10,380	12,416	13,776	15,272	16,515	8%
Export and Mixed Export plus Domestic	2,151	2,195	1,953	2,332	2,837	3,202	13%
Import factoring	1,196	1,418	1,681	1,628	2,239	2,658	19%
Total clients' sales	27,360	30,522	33,522	35,914	39,895	43,007	8%

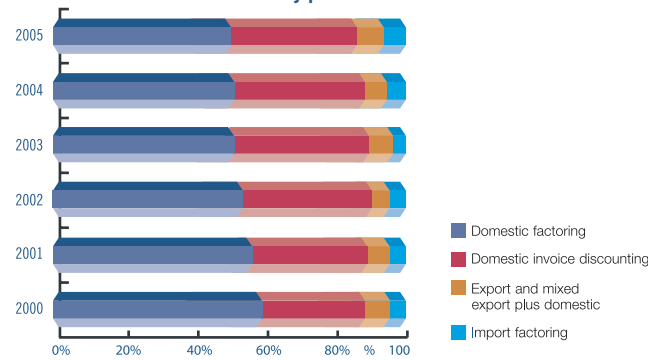
Analysis of client numbers by industry sector

At the end of 2005	Manufacturing	Distribution	Services	Transport	Other	Total
Number of clients	14,168	8,886	12,145	2,248	5,380	43,007

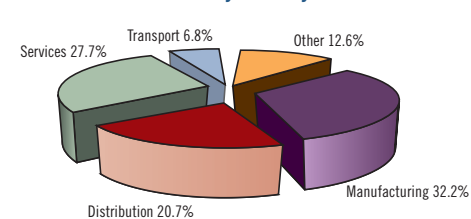
Advances at the Year End



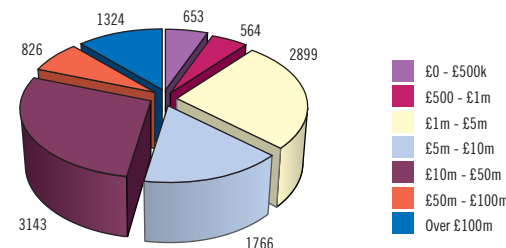
Distribution of client numbers by product



Distribution of clients by industry sector in 2005



Advances in client turnover band £m



FDA-10 Industry Statistics

The production of the 2005 figures, combined with the 10th anniversary of the FDA, has enabled a decade of industry growth to be examined for the first time.

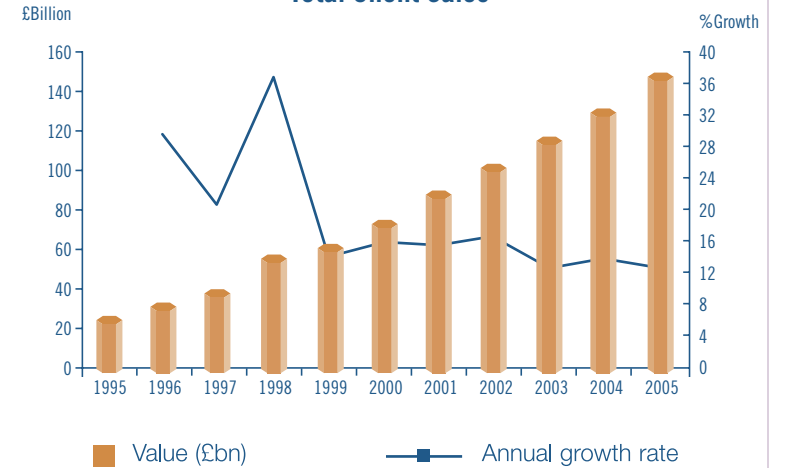
Analysis of these figures found that the invoice finance sector has grown by 460% since 1995, domestic invoice discounting has grown by 609%, factoring was up by 132%; and the total funds advanced to clients have increased by £9 billion, which equals a growth rate of 422%. Now over 43,000 businesses are being advanced over £11 billion by FDA members, with SMEs accounting for 99% of clients. Significantly, the last 10 years has also seen the use of export invoice discounting increased by £4 billion, as more UK businesses seek new opportunities in overseas markets.

It is amazing to think that just ten years ago only 13,000 companies in the UK used invoice finance but this has now increased to 43,000. This success can be attributed to the growing awareness of the flexibility offered by invoice finance products, which can grow in line with a business' working capital requirements.

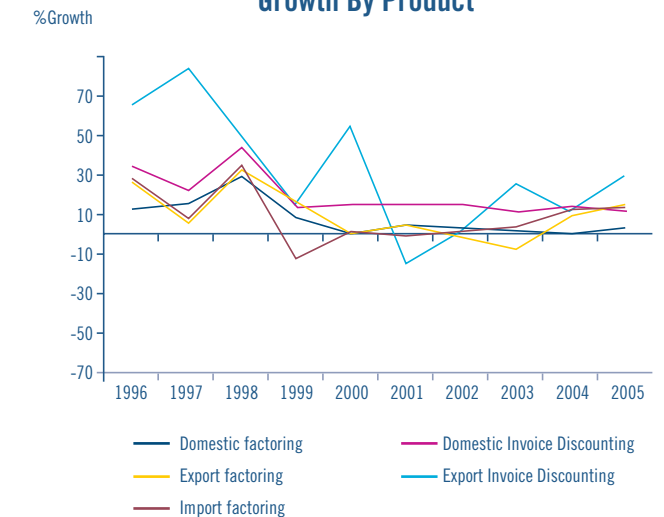
Businesses are no longer restrained by the inflexibility of traditional funding means. They can utilise the working capital tied up in unpaid invoices to finance their growth, whilst also taking advantage of the credit protection offered by invoice financiers as a way to safeguard future profits.

Analysis of trends over the past decade shows a definite strategic use of invoice finance at defined phases of the business lifecycle. Use of invoice finance appears to peak when businesses are starting up and then again when the company's turnover passes the £1 million milestone. Increasingly we are also seeing large corporate organisations turning to invoice finance, particularly confidential invoice discounting which allows them to retain control of their sales ledger. Anecdotal feedback also suggests there is a definite increase in M&A activity being part funded by invoice finance as companies use packaged deals to raise greater amounts of finance.

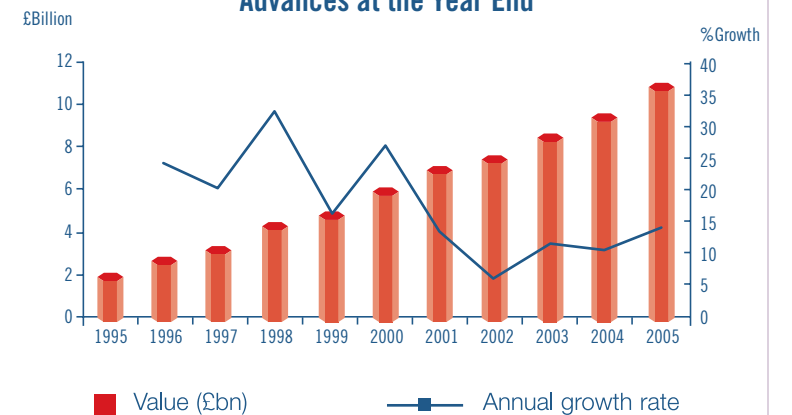
Total Client Sales



Growth By Product



Advances at the Year End



FDA Accounts

Profit & Loss Account for the year
ended 31st December 2005

	2005 £	2004 £
TURNOVER	415,225	362,500
Administrative Expenses	<u>(360,742)</u>	<u>(294,842)</u>
OPERATING PROFIT	54,483	67,658
Interest receivable and similar income	<u>12,717</u>	<u>8,312</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAX	67,200	75,970
Tax on profit on ordinary activities	<u>(13,314)</u>	<u>(14,579)</u>
RETAINED PROFIT FOR THE FINANCIAL YEAR	53,886	61,391
RETAINED PROFIT BROUGHT FORWARD	<u>154,132</u>	<u>92,741</u>
RETAINED PROFIT CARRIED FORWARD	<u>208,018</u>	<u>154,132</u>

All income and profits are derived from continuing operations.

The Company had no recognised gains or losses other than those disclosed in the profit and loss account.

TURNOVER

Turnover excludes Value Added Tax and represents subscriptions and application fee income paid by the members of the Association, and income received from sponsors of the Association.

All of the Company's turnover and profit on ordinary activities is derived in the UK from its principal activity.

FDA Accounts *continued*

Balance Sheet as at 31st December 2005

	2005 £	2004 £
CURRENT ASSETS		
Cash at bank	241,700	197,523
Debtors	<u>86,695</u>	<u>26,067</u>
	328,395	223,590
CREDITORS		
Amounts falling due within one year	<u>(120,377)</u>	<u>(69,458)</u>
NET ASSETS	<u>208,018</u>	<u>154,132</u>
RESERVES		
Profit and loss account	<u>208,018</u>	<u>154,132</u>
TOTAL MEMBERS' FUNDS	<u>208,018</u>	<u>154,132</u>

These financial statements were approved by the Executive Committee on 28th September 2006 and were signed on its behalf by:

J Longhurst
Chairman

EMG Ettershank
Vice Chairman

FDA Educational Foundation Accounts

Income & Expenditure Account
for the year ended 31st December 2005

	2005 £	2004 £
Income of continuing operations		
Course and certificate fees	352,463	366,943
Interest received	10,943	7,676
Donations	25,000	60,000
	<hr/>	<hr/>
Total income of continuing operations	388,406	434,619
	<hr/>	<hr/>
Expenditure		
Direct charitable expenditure	244,033	315,978
Management and administration	88,054	67,718
Fundraising and publicity	58,689	57,724
	<hr/>	<hr/>
Total expenditure	390,776	441,420
	<hr/>	<hr/>
Net deficit for the year	(2,370)	(6,801)

The income and expenditure account has been prepared to comply with Companies Act requirements. It differs from the statement of financial activities by exclusion of the value of donated services.

FDA Educational Foundation Accounts *continued*

Balance Sheet as at 31st December 2005

	2005 £	2004 £
Current assets		
Debtors	17,840	16,775
Cash at bank	277,934	243,026
	<hr/>	<hr/>
	295,774	259,801
Creditors: Amounts falling due within one year	(69,366)	(31,023)
	<hr/>	<hr/>
Total assets less current liabilities	226,408	228,778
	<hr/>	<hr/>
Funds		
Unrestricted funds	226,408	228,778
	<hr/>	<hr/>

These financial statements were approved by the Board of Governors on 27th September 2006 and were signed on its behalf by:

EMG Ettershank **D Marsden**
Governor *Governor*



Cautionary Lessons from Legal Developments in 2005 -

by Edward Wilde, Hammonds

This review will summarize a number of legal positions which moved forward during the course of 2005.

CONFIDENTIALITY

The House of Lords, in Jackson vs Royal Bank of Scotland, issued a useful reminder to banks and financiers of the cost of negligent disclosure of a client's affairs, in breach of a contractual duty of confidentiality. The bank was ordered to pay damages equal to four years loss to the client of repeat business. Factors and discounters must remain vigilant to ensure that information about clients always remains confidential and that any intended disclosure has the prior agreement of the client. Standard Data Protection Act privacy notices for individuals must be comprehensively drafted and should also be issued to corporate clients. Disclosure beyond the stated purposes is dangerous and costly.

GUARANTEES AND PROVISIONS FOR NOT TO SET-OFF

Bank of Scotland vs Singh proved the importance of the small print in guarantees. The guarantor had agreed to pay up in full under his guarantee and pursue any claims he might have against the bank as a separate exercise. Refusing to do so he alleged that such a provision, also common in many FDA members' "full" guarantees, was unreasonable or unfair under the Unfair Contract Terms Act 1977 and so unenforceable. This defence was thrown out by the Court which held the no set-off clause was reasonable. The Court noted that the guarantor had received independent legal advice before signing; he controlled the bank's customer company and wanted the company to borrow. Receivables financiers will welcome this robust decision but it does highlight a weakness in so called "short form warranties", in which "no set-off" clauses are invariably absent.

GUARANTEES AND CHANGES TO THE FACILITY

In, Triodos Bank NV vs Dobbs, the Court of Appeal handed out a salutary reminder of the dangers of making substantial changes to a facility where the guarantee, as is usually the case with receivables financiers, is limited only to obligations under the specified facility. If there is to be a substantial change to the facility then the only safe course is to obtain the guarantor's specific consent before it occurs. It is unsafe to assume that just because a guarantor is also a director, shareholder or parent company signatory to, or negotiator of, the changed agreement that it has also given its consent as a guarantor. Whilst most full guarantees attempt to include terms giving prospective consent to future variations and amendments these will be strictly construed against the financier where the language is unclear. They are unlikely to be effective where the original facility is replaced by an agreement containing matters additional to the original agreement. Financiers transferring from factoring to ID or vice-versa need carefully to check their position. It is understood that this case may be appealed to the House of Lords.

MONEY LAUNDERING

The EU's Third Money Laundering Directive was adopted on 15h December 2005 and will become UK law within 2 years of that date. It strengthens existing laws regarding the laundering of proceeds of serious crime and extends to prohibit terrorist financing. Changes that receivables financiers need to prepare for are:

- The increased due diligence needed when taking on new clients. This will include identifying and verifying the "beneficial owner", being the individual who ultimately owns or controls the client and/or on whose behalf a transaction or activity is being conducted; and the need to apply client due diligence in their non-EU branches and subsidiaries.

Fortunately, client due diligence will not be required for:

- Companies listed on a regulated stock market
- Public authorities
- Clients representing a "low risk of money laundering or terrorist financing" in accordance with technical criteria to be published by the European Commission. This risk based approach is to be welcomed

CONSTRUCTION INDUSTRY SCHEME

During 2005 HM Revenue and Customs published their new CIS rules with a start date of 2006 and then delayed the start until 2007. The good news is that an assignment of a CIS 6 construction debt to a factor will no longer force the debtor to deduct tax. But, as CIS certificates will no longer be issued, a factor will run the risk of being unaware that a client has had its gross payment status withdrawn. The FDA continues its negotiations with the Revenue on this and other aspects of the new CIS.

LAW COMMISSION

The FDA has spent three years assisting the Commission in those aspects of its proposals on company security interests that might affect members. The Commission published its

final report in August. It proposed that factoring and ID agreements should be registered at Companies House as security interests, with sanctions for failing to register. Prohibitions against assignments would be ineffective against a registered assignee. These proposals did not appear in the November 2005 Companies Bill. The Commission is unable to say when they become part of UK law.

FIXED CHARGES ON BOOK DEBTS

In June 2005 the House of Lords gave judgment in National Westminster Bank vs Spectrum Plus. The case concerned the effectiveness of a purported fixed charge by a bank over the present and future book debts of its customer. It held that it was possible to take a fixed charge over book debts but that it had not been done in this case, because the customer had not been deprived of access to the collection proceeds. Several examples were given of what would be effective deprivation, including blocked accounts. All are cumbersome and will deny bank customers the economic use of the collection proceeds of their book debts. As a result, factoring and invoice discounting should become the dominant and most user friendly form of raising funding against uncollected receivables.

DIG OUT YOUR OLD FILES

The Leyland Daf case [2004] held that liquidators cannot recover liquidation fees and expenses from assets secured by a floating charge ahead of the claims of a floating charge holder. In July 2005 the DTI invited claims from floating charge holders who, since 1970, may have suffered through DTI's wrongful claims for liquidation expenses. There may be profit in getting those old enforcement files out of your archives to see what can be recovered. However there is unlikely to be any long term future benefit from this case as the DTI are determined to overrule this provision via the Companies Bill in 2006.

Legal Developments in 2005 continued

CHANGES TO YOUR COURT ACTIONS

In October 2005 there were major changes to the Civil Procedure Rules affecting civil cases before all English courts. Two changes that may affect FDA Members are:

1. Electronic Disclosure

At an early stage in proceedings, parties will be required to consider the issues of searching for and preserving electronic documents, and agree the form in which they are to be supplied for inspection. The Rules set out a number of factors to be taken into account in determining the extent of your search.

2. European Enforcement Order (EEO)

If you take action in England against a debtor in the EU and you obtain an uncontested judgment then you can also obtain an EEO and send it to the debtor's country for local enforcement. The debtor cannot in its own country challenge the EEO or the English judgment. This should be of value to factors whose volume of export debts is too small to justify joining an international factoring chain but who are still prepared to accept European debts incurred on open credit terms.

FINALLY

Members with legal issues of general interest can raise these with the Secretariat and are welcome to attend the quarterly meetings of the Legal and Technical Committee. Alternatively, Edward welcomes any comments on the matters raised in this report.

Edward Wilde is Hon. Legal Adviser to FDA and a member of the London Finance Law Team at Hammonds, Solicitors.

Tel: 0870 839 0000

Email: edward.wilde@hammonds.com

Website: www.hammonds.com

Executive Members and Governors 2005

FDA Chairman

Adrian Sainsbury -
RBS Invoice Finance

FDA Vice Chairman

Jeff Longhurst -
IGF Invoice Finance

FDA Executive

Steve Bottomley -
HSBC Invoice Finance

Tony Cox -
Venture Finance

Maurice Craft -
Regency Factors

Ted Ettershank -
Lloyds TSB Commercial Finance

Paul Hancock -
JP Morgan

Ronnie King -
AIB Commercial Services

David Marsden -
RDM Factors

David Thomson -
Close Invoice Finance

Previous Chairman

David Robertson -
Bibby Financial Services

Ann Horan -
Bank of Ireland Finance

Tony Cox -
Venture Finance

FDA Educational Foundation Governors

Adrian Sainsbury -
RBS Invoice Finance

Tony Cox -
Venture Finance

Ted Ettershank -
Lloyds TSB Commercial Finance

Wendy Izod -
GE Commercial Finance

Paulette Lloyd -
Lloyds TSB Commercial Finance

David Marsden -
RDM Factors

David Robertson -
Bibby Financial Services

Mike Watson -
Arbuthnot

Edward Wilde -
Honorary Legal Advisor

FDA Secretariat

Kate Sharp -
Chief Executive Officer

Edward Wilde -
Honorary Legal Advisor

FDA Sub-Committees Factors Group

Jeff Longhurst -
IGF Invoice Finance

Irish Members

Ronnie King -
AIB Commercial Services

Larger Members

Ted Ettershank -
Lloyds TSB Commercial Finance

Legal and Technical Committee

John Kilbee -
Lloyds TSB Commercial Finance

Operations Forum

Graham Cox -
HSBC Invoice Finance

Professional Standards Committee

Ted Ettershank -
Lloyds TSB Commercial Finance

Paul Hancock -
JP Morgan

Jeff Longhurst -
IGF Invoice Finance