

# Study on the Legislative Improvement of Factoring Contracts

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**Abstract:** *With the booming development of factoring industry, the practical application of factoring contracts has become increasingly widespread, and the related disputes have gradually increased. Under such circumstances, the Chinese government has made corresponding amendments and improvements to the provisions of factoring contracts. For example, the Civil Code includes new provisions on factoring contracts to better protect the market order and legitimate rights and interests. However, even so, the Civil Code does not fully meet the needs of the factoring system, and there are still some legal problems in practice. Therefore, further legislative improvement is imperative. In view of the current problems with factoring contracts, it is suggested that the legislature should take the following measures: firstly, a unified qualification regulation should be introduced to strengthen the qualification examination and supervision of factoring practitioners, so as to reduce the illegal acts of practitioners and ensure the legality and stability of factoring business. Secondly, the scope of future assignment of accounts receivable needs to be clarified to prevent ambiguity in the assignment process, so that both parties have a clear understanding of the scope of assignment of accounts receivable at the beginning of the contract. This can not only avoid legal disputes caused by unclear contracts, but also provide market players with more convenient financial services. Finally, the provisions on fraudulent accounts receivable transactions should also be improved. Since false accounts receivable transactions are one of the main problems in factoring contracts, and such problems are very easy to occur in practice, they should be given priority consideration in the legislative process, and corresponding legal provisions should be formulated to increase the efforts to combat false accounts receivable transactions. Through the reasonable application of the above measures, the legality and stability of factoring business can be better guaranteed, providing more robust legal protection for the development of factoring market, thus promoting the further healthy development of factoring industry in China.*

**Keywords:** *Factoring Contract; Accounts Receivable; Civil Code*

## 1. Introduction

As a commercial financing tool, a factoring contract is a contract in which the seller in a commercial transaction assigns the accounts receivable to a factor (also known as a factoring company), who provides financing and asset management services and collects the accounts receivable from the buyer. With the continuous development of domestic and international trade and the gradual improvement of the financial market, factoring has gradually become one of the main ways of commercial financing. Factoring contracts play an important role in the modern economy. On the one hand, factoring contracts can provide fast financing for the seller, improve the efficiency of the use of funds and solve the problem of tight liquidity. On the other hand, a factoring contract can also provide a stable investment channel for the factor to diversify the risk of assets and increase the liquidity of assets. In addition, factoring contracts can also provide buyers with preferences to extend payment terms and reduce payment pressure, promoting the stable development of commercial cooperation.

Although factoring contracts are widely used at home and abroad, there are still shortcomings in the legal framework. The current legal system in China is relatively outdated in terms of factoring contracts, with vague definitions of contracts, lack of regulatory mechanisms and irregular contractual agreements all posing certain obstacles to the healthy development of factoring business. Therefore, this thesis aims to conduct a study on the legislative improvement of factoring contracts, with a view to providing theoretical support for the healthy development of factoring business and the improvement of legal regulation. Specifically, the research objectives of this thesis are mainly the following: firstly, to introduce the basic concepts and types of factoring contracts, and analyse the characteristics and

applications of different types of factoring contracts. Secondly, to analyse the current situation of the relevant legal provisions of factoring contracts in China, including the deficiencies of the law and the aspects that need to be improved. Thirdly, suggestions for improving the legal system of factoring contracts in China are put forward, including improving laws and regulations, optimising regulatory mechanisms and strengthening contract enforcement. Finally, the main contents and conclusions of the study are summarised, and the future development trend of factoring contracts is foreseen. Therefore, the study on the legislative improvement of factoring contracts will help to regulate the order of the factoring market, protect legitimate rights and interests, improve the efficiency of contract performance and promote the healthy development of factoring business. At the same time, this study is also of great academic and practical significance. The academic significance lies in the fact that the research on the improvement of factoring contract legislation can provide a new perspective and research method for the theoretical research of China's commercial and financial law disciplines; the practical significance lies in the fact that the conclusions and recommendations of this study can provide useful references for the development of China's factoring market, and also provide strong support for relevant policy makers.

To sum up, this thesis will focus on the legislative improvement of factoring contracts, aiming at exploring the role of factoring contracts in commercial financing and its development status, and proposing reasonable and feasible legal system recommendations to promote the healthy development of the factoring market and the improvement of legal regulation.

## **2. Overview of Factoring and Factoring Contracts**

### ***2.1. The connotation of factoring and factoring contracts***

Factoring was developed from agency sales in the export trade business between Europe and the United States in the 17th and 18th centuries. In the 19th century, this agency sales model gradually developed into a novel financial service model in the United States, that is, the factoring industry in modern business development, and gradually obtained the legal system to determine. Factoring, as a special kind of financial service, is a number of businesses that mainly provide capital financing, sub-account management and guarantees for creditors.<sup>[1]</sup> Therefore, the mode of factoring is that the creditor establishes a basic contractual relationship with the debtor, such as a sale and purchase contract, and the creditor then assigns its receivable claims to the factor by signing a factoring contract. After obtaining the receivable claims assigned by the creditor, the factor provides the creditor with corresponding financial services such as capital financing.

There were no clear standards on how to accurately define a factoring contract until the publication of the Civil Code. According to the International General Rules of Factoring, a factoring contract is a contract in which the factor provides services such as account collection and payment guarantee to the supplier after assigning the accounts receivable assigned to him by the factor. According to the minutes of the Tianjin High Court, the factoring contract is an agreement between the creditor and the factor for a number of services such as assignment of accounts receivable and capital financing. 2020, Article 761 of the Civil Code promulgated in China clearly stipulates that a factoring contract is an agreement between a creditor of accounts receivable, after signing a basic contract with the debtor, in order to obtain the capital provided by the factor. The factoring contract is a contract in which the creditor assigns its receivable claims against the debtor to the factor in order to obtain financial assistance from the factor, thereby receiving services such as capital financing, account collection and payment guarantee from the factor.

The definition of factoring as a financial service varies from country to country and region to region, but the core concept is that the creditor assigns its accounts receivable claims to the factor by way of a factoring contract, and the factor, after obtaining the accounts receivable claims assigned by the creditor, provides the creditor with corresponding capital financing, sub-account management, guarantee and a number of other businesses. In Europe and the United States, factoring initially developed as a form of agency sales, and over time, factoring services gradually developed into an independent financial service and gained the certainty of a legal system. In China, on the other hand, the development of factoring began in the 1990s, and with the improvement of the country's financial system and the expansion of market demand, factoring has developed rapidly. With the development of the factoring industry came the inevitable emergence of various financial disputes, and as a result, China's Civil Code in 2020 provided a clear regulation of factoring contracts, thus providing a legal basis for the development of the factoring industry.

It is worth noting that the provisions of the Civil Code on factoring contracts are not very complete and some legal issues in the factoring industry still need to be studied and improved in depth. For example, in factoring, there are problems such as false accounts receivable transactions, which to a certain extent threaten the healthy development of the factoring industry. Therefore, in terms of legislative improvement, a unified qualification regulation should be introduced to clarify the scope of assignment of accounts receivable in the future and to improve the situation of false accounts receivable transactions in order to further promote the healthy development of the factoring industry.

## **2.2. Characteristics of factoring contracts**

First, the parties to a factoring contract are diverse. In the legal relationship of factoring contract, at least three parties to the transaction are involved. The three parties to the transaction involved in the factoring contract are the creditor of the underlying contract, the debtor of the underlying contract and the factor. These three parties form different legal relationships and transaction structures. Specifically, the underlying contractual relationship is formed between the receivables creditor and the receivables debtor, which is based on the sale and purchase of goods. In this relationship, the debtor of receivables is the person who sells goods or provides services to the creditor of receivables, thereby giving rise to a receivable claim. In a factoring contract, a financing relationship is formed between the receivable creditor and the factor. This means that the factor provides financing to the receivables creditor as a means of acquiring the receivables claims. Once the factor acquires these receivable claims, it can use them as collateral to raise finance from financial institutions such as banks. As a result, the factor assumes the risk of the accounts receivable creditor. Finally, the legal relationship formed between the debtor of the receivables and the factor is an assignment of receivables claims as the content of the assignment of claims. This means that the original receivables creditor is no longer a creditor of the receivables, but assigns its receivables claim to the factor. In this case, the factor is entitled to claim the amount of the receivable from the debtor of the receivable. The factor therefore realises a *de facto* claim through the accounts receivable debtor. The factoring contract has a high level of complexity and technical content at the legal level, as different subjects of transactions and different legal relationships are involved in the factoring contract.

Secondly, factoring contracts have the role of secured financing. According to the definition of factoring contract in the Civil Code, if a creditor wants to obtain financing provided by a factor, it should assign its receivable claims against the debtor to the factor, and if the creditor is not able to repay the financing provided by the factor in time, the factor can realise the receivable claims it has. At the same time, in the interpretative provisions of the Civil Code enacted in China regarding the security system, its Article 1 states that the factoring contract has the role of a guarantee. The factoring contract has a secured financing role due to the fact that factoring transactions are by their very nature a form of financing based on accounts receivable. In a factoring contract, the creditor assigns its receivable claim to the factor in exchange for financing. In this way, the factor can use the creditor's accounts receivable as collateral to provide financing support to the creditor, thus helping the creditor to solve its financing problems. At the same time, factoring contracts are explicitly defined as a form of security in our Civil Code. According to the Civil Code, the factoring contract is a form of guarantee provided by the creditor to the factor, and at the same time, the funds provided by the factor to the creditor in providing financing can also be considered as a form of guarantee. In a factoring transaction, as the creditor assigns its receivables to the factor, the factor becomes a legitimate creditor of the receivables and has priority. Therefore, if the creditor is not able to repay the financing provided by the factor in a timely manner, the factor can rely on the terms set out in the factoring contract to realise the accounts receivable claim it has, thereby protecting its own legitimate rights and interests. This is another reflection of the factoring contract's role as a guarantee.

Thirdly, factoring contracts are flexible and highly rewarding. Unlike traditional private lending, bank lending and financial leasing, the factoring industry has fewer regulatory measures and restrictions in place, so factoring is a worthwhile option for customers who want to obtain financing quickly. The creditor and the factor are free to agree on a rate of return on the factored finance, which is subject to the upper limit of interest rates for loans such as private lending, thus seeking a higher return. In addition, factoring contracts offer other flexibility, for example, factoring finance can be tailored to the needs of different businesses, either for a single receivable or for a combination of receivables. Also, factoring contracts allow companies to transfer receivables to the factor through factoring when a sale is made, thus shortening the cash flow cycle and improving the cash flow level of the company. However, it is important to note that there are certain risks associated with the factoring contract transaction method. In the course of factoring contract transactions, the factor is required to review and

assess the authenticity and legality of the receivables and to carry out collection work. At the same time, the risk of default by the acceptor or payer of the receivables also needs to be borne by the creditor and the factor. Therefore, when factoring finance, companies need to choose their factoring company carefully and fully understand and assess the contents of the factoring contract.

Overall, factoring contracts, as an emerging form of financing, are receiving more and more attention and application due to their flexible transaction methods and high returns. At the same time, the multi-party nature of factoring contracts and the characteristics of secured financing also make them somewhat complex and technically difficult to apply in practice, requiring all parties to strictly comply with the provisions of the contract and laws and regulations to ensure the validity and legality of the contract.

### **3. Problems of Factoring Contract Legislation in China**

#### ***3.1. The main qualification of the factor is not clear***

In the factoring industry, the identity of the factor includes bank factor and non-bank factor, and the non-bank factor can be subdivided into commercial factoring institutions and financial leasing institutions that also engage in commercial factoring. Although there is no significant difference in the scope of factoring between bank and non-bank factors, the factoring approach of bank factors is even closer to that of traditional credit, while the factoring approach of non-bank factors is closer to the essence of factoring. However, according to the factoring market access rules promulgated in China, the CBRC does not grant non-bank factoring the same qualification status as bank factoring, and strictly distinguishes between the two, and the local financial regulatory authorities are responsible for supervising non-bank factoring. This has led to different development of non-bank factors in different regions due to different regulatory norms and work rules of various local financial regulatory departments, which has seriously hindered the healthy and stable development of China's factoring industry.<sup>[2]</sup> Moreover, the legal documents stipulated in each region are complicated and different, which are neither provisions belonging to the legal level nor administrative regulations and local regulations. The validity level of the regulatory documents issued by these regions is not high, which is difficult to adapt to the factoring industry's business development in the whole country.

The lack of clear regulations on the qualifications of factors in the factoring industry also poses a challenge to the healthy and stable development of the factoring industry in China. Non-bank factors are subject to different regulatory standards compared to bank factors and are supervised by local financial regulators. The different regulatory frameworks of various local authorities have resulted in different levels of development of non-bank factors in different regions, creating an uneven playing field within the industry. In addition to the regulatory challenges, the legal documentation and regulations governing factoring are complex and vary from region to region, which hinders the growth of the factoring industry. This makes it difficult for factoring companies to operate nationwide and can create uncertainty and legal risk for the industry. Despite these challenges, the factoring industry in China is growing rapidly and is becoming an important financing option for small and medium-sized enterprises. The Chinese government has also introduced various policies and regulations to support the development of the factoring industry and promote its healthy growth.

#### ***3.2. The scope of future assignment of accounts receivable claims is unclear***

Although China's Civil Code has clear provisions on the assignment of future receivables, whether future receivables claims are assignable remains an issue that still needs to be explored, which belongs to the general regulation of the assignment of claims and does not only apply to receivables or factors. According to the Civil Code, it appears that a creditor can assign an accounts receivable claim to a factor, but whether this is an assignment of a claim under the general rules on assignment of claims affects the establishment of the legal relationship of the factoring contract. According to the provisions of the Civil Code on the assignment of claims, when a creditor assigns a claim to a third party, it may choose to assign all or part of the claim, but some claims by their nature are not assignable. In most disputes over factoring contracts, the judicial authorities will conclude that the factoring contract between the parties has not been established on the basis that future receivables claims are not assignable by their nature. This has resulted in inconsistencies and misunderstandings between legislative provisions and judicial practice in respect of the assignability of future receivables claims, leading to confusion in judicial practice. In fact, the key point in determining the assignability of future

receivables claims is to accurately determine the scope of the assignment of claims, which is a legacy of the legislature's work on factoring contracts during the preparation of the Civil Code.

In addition, there are a number of other regulatory issues in the factoring industry. For example, the issue of collateral for factoring contracts. In factoring, the factor will require the debtor to provide appropriate collateral as security in order to reduce its credit risk. However, due to the differences in collateral standards and requirements in different regions, the uniformity of collateral for factoring contracts is not guaranteed. In addition, the legal issues in the factoring industry are complex, involving a number of areas such as commercial law, civil law, contract law and securities law, which require comprehensive analysis and resolution by professionals in the relevant fields. In order to solve these problems in the factoring industry, the state should further improve laws and regulations, clarify the relevant provisions in factoring contracts, strengthen the supervision of non-bank factors, unify the standards and norms of factoring business around the world, and improve the overall development of the factoring industry. At the same time, enterprises should also strengthen their own risk awareness when choosing factoring financing, prudently choose a suitable factor and carefully read the terms and conditions of the contract before signing it to avoid disputes caused by unclear contract provisions.

### ***3.3. Imperfect provisions on fraudulent accounts receivable transactions***

In the legal relationship of factoring contract, the most important part is the assignment of accounts receivable, and the prerequisite for the establishment of a factoring contract is the signing of a corresponding basic contract between the creditor and the debtor. If there is no underlying contract between the creditor and the debtor or if there are false accounts receivable, then a valid factoring contract cannot be established and the legitimate rights and interests of the factor are seriously jeopardised. In a complex practical situation, the creditor may collude with a third party to obtain financing from the factor by falsifying a false underlying contract in order to quickly solve the problem of lack of funds in production and operation, and the third party may also obtain some illegal gains.<sup>[3]</sup> Of course, in practice, there are also debtors who, due to negligence or ignorance, confirm the creditors' fictitious receivables under their own negligence and carelessness. If the factor signs a factoring contract with the creditor and releases the agreed financing to the creditor without knowledge of such false underlying contract and without carefully verifying the underlying contract based on the creditor's good creditworthiness and trust This can result in the factoring contract being performed to the serious detriment of the debtor's and the factor's legitimate rights and interests. In addition to this, there may also be a situation where the creditor and the factor enter into a factoring contract without a genuine underlying contract between the creditor and the debtor in order to achieve the objective of an illegal transfer of property. Based on the existence of the above scenario, how should the validity of a factoring contract be determined when the factoring contract is signed with a false underlying contract?

The key to the validity of a factoring contract lies in the perfection of the provisions of the sham accounts receivable transaction. In China's current legal provisions, although there are corresponding provisions for false transactions, the provisions for false accounts receivable transactions are relatively simple and cannot fully solve the problems in practice. Generally speaking, if the factoring contract signed between the creditor and the factor is based on a false underlying contract, then such factoring contract is invalid and should not have any legal effect on the debtor. However, if the factor has not carefully verified the authenticity of the underlying contract in the process of entering into the factoring contract and has only entered into the factoring contract based on the creditor's creditworthiness, then the factor should also be held liable for this. Therefore, the provisions on fraudulent accounts receivable transactions need to be further improved to protect the legitimate rights and interests of the factor and prevent the occurrence of fraudulent accounts receivable transactions. At the same time, the factor should also strengthen the verification of the authenticity of the underlying contract in the process of signing the factoring contract, in order to reduce their own risks.

## **4. The relative countermeasures to improve the factoring contract legislation**

### ***4.1. Introduction of unified qualification regulations***

According to the current system of laws and regulations regulating factoring contracts in China, the Civil Code has the highest level of legal binding effect. Although the Civil Code has made basic provisions for factoring contracts, there are no specific provisions to make detailed regulations on the access qualifications of the main body of the factor. At the same time, it is not appropriate for the basic

law, the Civil Code, to regulate the entry qualifications of bank factors and non-bank factors. This has led to the fact that although the CBRC has a corresponding regulatory responsibility for bank and non-bank factors, there is no unified approach to regulating the factoring industry. The fact that only the Interim Measures for the Management of Commercial Bank Factoring are currently in place as the highest level of regulation in the factoring industry is not in line with the booming factoring industry in China, nor is it an effective deterrent to punish illegal behaviour within the factoring industry in China, given the numerous violations of the law in the factoring industry, so it is imperative that a unified approach to the management of the factoring industry be introduced. In the wake of the new epidemic, the financial sector in China has been hit hard, and the factoring industry is not immune to this, but with the difficult development over the last three years, there is still a huge demand for factoring in China, and the future development of the factoring industry in China is very bright and promising. Therefore, it is necessary to formulate an administrative regulation to manage the factoring industry.

In addition to strengthening regulation and combating irregularities in factoring contracts, it is also necessary to introduce a uniform qualification regulation to deal with fraudulent accounts receivable transactions. Such a regulation can clearly stipulate the main qualifications for factoring, including the capital strength, business capability and creditworthiness of the factor, to ensure that the factor has sufficient strength and creditworthiness to carry out the business and reduce the possibility of fraudulent situations in factoring contracts. At the same time, this regulation can also clarify the entry norms for the identity and qualifications of bank and non-bank factors, and formulate corresponding regulatory measures to regulate them, so as to ensure the healthy development of the factoring industry and the protection of the legitimate rights and interests of factors. At present, China's factoring industry is still in a stage of rapid development and will continue to have huge demand and potential in the future. In this context, the introduction of an administrative regulation on the management of the factoring industry will not only regulate the market order of the factoring industry and protect the rights and interests of all parties, but will also provide a strong guarantee for the development of the factoring industry. Therefore, the relevant authorities should speed up the legislative process and introduce a comprehensive administrative regulation on factoring as soon as possible, so as to strengthen the supervision and management of the factoring industry and promote the healthy development of the factoring industry.

#### ***4.2. Clarify the scope of future assignment of accounts receivable***

In the factoring contract legal relationship, although future receivables claims are also a kind of claims, it is known in the above analysis that not all future receivables claims are assignable. The key to determining a valid factoring contract object is to determine whether the assignability of future receivables claims is present. Therefore, when examining future receivables claims, two properties of future claims should be examined, i.e. certainty and expectancy. Certainty means that the future receivables claim is attributable to a factoring contract and is the subject of an assignment of a factoring contract.<sup>[4]</sup> Expectability means that although the creditor does not have a corresponding receivable claim when the creditor enters into a factoring contract with the factor, it is certain that at a certain time in the future, the creditor will receive a receivable claim against the debtor, and it can be said that the future receivable claim is a claim with a term.

After analysing the certainty and predictability of future receivables claims, future receivables claims can then be further classified into two categories: future claims with a causal relationship and future claims without cause. Also on this basis, future receivable claims can be divided into five refined situations: firstly, the creditor and the debtor have signed a base contract and the creditor has already shipped the goods, and there are no conditions and deadlines attached to the parties; secondly, the creditor and the debtor have signed a base contract and the creditor has shipped the goods, but the debtor's payment deadline has not yet expired; thirdly, the creditor and the debtor have established a Fourthly, the basic contract between the creditor and the debtor has been established but has not yet entered into force, and the conditions and deadlines attached to it have not yet expired; Fifthly, the basic contract has not been concluded between the creditor and the debtor, but there is an intention to establish a basic contract. The above five situations roughly encompass the situations in which future receivables claims can be assigned. Among these five situations, the first and the second situations have a strong certainty and expectation, so the future receivables claims in these two situations are assignable. In the third and fourth scenarios, although there is a certain degree of expectancy, there is not much certainty. If the creditor and the factor enter into a factoring contract under such circumstances, the factoring contract cannot be established as it does not have the prerequisites, so no valid factoring contract is established between the creditor and the factor.<sup>[5]</sup> Therefore, in summary, the

scope of future receivables claims in factoring contracts should be clearly defined as the first and second situations with transferability, and for the latter three situations without transferability, the factoring contract should be deemed not established, or specific restrictions should be issued to prepare for screening the object of the factoring contract according to the different services provided by the factor such as financing, collection and guarantee.

#### ***4.3. Improving the circumstances of fraudulent accounts receivable transactions***

With regard to the validity of factoring contracts in the presence of false receivables transactions, according to Article 763 of the Civil Code, where the relationship underlying the factoring contract is established on the premise of a false receivables transaction, the debtor may not claim that the receivables are not established to counter the bona fide factor's claim for realization, and the debtor may counter the factor who knows of the existence of the false transaction. Although this provision has some protection for certain false underlying transactions in judicial practice, it is not a more appropriate solution and there is considerable controversy as to how to measure the interests between the parties.

How to judge the validity of the contract, mainly by analyzing whether the contract elements are valid, usually from three elements to judge: namely, whether the parties' civil capacity is appropriate, whether the intention between the parties is true and whether the civil legal acts between the parties violate laws and regulations and public order and morality. These three elements are the general elements for judging whether a contract is validly formed, and for some special contracts, there are also some special elements for validity. If the contract between the parties requires the administrative approval of the competent administrative authority as an element of validity, and the parties have not obtained the approval of the administrative authority, the contract formed between the parties will be invalid due to the lack of the element of validity. It should be noted, however, that the elements of formation and the elements of validity are not the same and that the elements of validity should not be confused with the elements of formation. Although a contract formed between the parties is in accordance with the intention of the parties, it is debatable whether the contract is valid. According to the Civil Code, if a contract is not formed by the parties with their true intentions, then the right of rescission can be exercised by the right holder, thereby extinguishing the contract between the parties.

Therefore, in determining the validity of a factoring contract between a creditor and a factor based on false accounts receivable, two scenarios can be analysed according to whether there is collusion between the creditor and the factor. The first is where there is collusion between the creditor and the factor, then the factoring contract between the two parties is not established, and the factoring contract can then be treated as a loan contract according to the actual circumstances. The second scenario is where there is no collusion between the creditor and the factor. In this case, the underlying contract is usually formed as a result of the creditor fraudulently obtaining the debtor's signature or colluding with the debtor to deceive the factor, resulting in the factoring contract being signed by the factor. The factor is usually unaware of the collusion between the creditor and the debtor and enters into the factoring contract due to negligence. The factor does not have a fictitious agreement to create the receivables, so the factoring contract entered into by the creditor and the factor cannot be held to be invalid.<sup>[6]</sup> Even if the creditor's conduct can be regarded as fraudulent, it cannot be considered that the factoring contract is invalid on this ground. It can be considered that the factoring contract is revocable, i.e. after the factor is deceived, if the right of revocation is not exercised, then the factoring contract is still valid, and of course the creditor is required to bear the corresponding liability for breach of contract and compensation. In summary, if the receivables in the underlying contract are false, then the factoring contract set up on this premise is not established if there is collusion between the creditor and the factor, and the factoring contract is revocable if there is no collusion between the creditor and the factor.

## **5. Conclusion**

The factoring contract is stipulated in a whole chapter of China's Civil Code, which can show that the legislature attaches great importance to the factoring industry, but from the current situation of China's factoring system, China's legislature still needs to improve the factoring system, clarify the standard of the factoring contract and refine the corresponding provisions, so as to promote the healthy and orderly development of China's factoring industry and promote the system of factoring, systematization and rule of law. Admittedly, although China's Civil Code contains basic provisions on factoring contracts, there are no specific provisions detailing the qualifications of the main body of the factor, nor are the regulatory responsibilities and standards for factoring clearly defined. In addition, the

existing regulatory system for the factoring industry is flawed and unable to effectively prevent and punish illegal and unlawful acts, which restricts the development and healthy and orderly operation of the factoring industry. In this regard, it is recommended that the legislature should strengthen the regulation and management of the factoring industry, introduce an administrative regulation on the management of the factoring industry, so as to clarify the standards for the regulation of factoring contracts, refine the corresponding provisions, establish a sound entry threshold, risk assessment and regulatory mechanism for factoring business, promote the systemisation and rule of law of the factoring system, safeguard the legality and stability of factoring business, and maintain market order and Fair competition. At the same time, the publicity and training of the factoring industry should be strengthened to improve the professional quality and risk awareness of the practitioners, so as to promote the healthy and orderly development of the factoring industry and the competitiveness and status of China's factoring business in the international market.

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