



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA



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RBI/2023-24/37

CO.DPSS.POLC.No.S-258/02-01-010/2023-24

June 7, 2023

The Trade Receivables Discounting System Platform Operators and Participants /
National Payments Corporation of India (NPCI)

Madam / Dear Sir,

Expanding the Scope of Trade Receivables Discounting System

To ease constraints faced by Micro, Small and Medium Enterprises (MSMEs) in converting their trade receivables to liquid funds, the Reserve Bank of India (RBI) had issued the '[Guidelines for the Trade Receivables Discounting System \(TReDS\)](#)' (updated as on July 2, 2018). The guidelines allow financing / discounting of MSME receivables on "without recourse" basis by permitted financiers. Currently, three entities operate TReDS platforms in the country; one more entity has also been given in-principle authorisation to operate such platform.

2. Based on the experience gained, and as announced in the [Statement on Developmental and Regulatory Policies dated February 8, 2023](#), it has been decided to make the following enhancements to the TReDS guidelines :

- a) **Facilitate insurance for transactions** : Financiers place their bids on the TReDS platforms keeping in view the credit rating of buyers. They are generally not inclined to bid for payables of low rated buyers. To overcome this, insurance facility is being permitted for TReDS transactions, which would aid financiers to hedge default risks, subject to the following:
- Apart from MSME sellers, buyers and financiers, insurance companies are permitted to participate as "fourth participant" in TReDS.
 - In their business / operational rules, the TReDS platform operators may specify the stage at which insurance facility can be availed.
 - Premium for insurance shall not be levied on the MSME seller.

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हिंदी आसान है, इसका प्रयोग बढ़ाएँ

- iv. Collection of premium and related activities could be enabled through National Automated Clearing House (NACH) system used for settlement of TReDS transactions.
 - v. Based on consent received from financiers and insurance companies, TReDS platforms could facilitate automated processing of insurance claims and specify timelines for their settlement through the NACH system.
 - vi. As of now, the credit insurance shall not be treated as a Credit Risk Mitigant (CRM) to avail any prudential benefits.
- b) Expand the pool of financiers : TReDS transactions fall under the ambit of “factoring business”, and banks, NBFC-Factors and other financial institutions (as permitted by RBI) can presently participate as financiers in TReDS. The Factoring Regulation Act, 2011 (FRA) allows certain other entities / institutions to undertake factoring transactions. Accordingly, all entities / institutions allowed to undertake factoring business under FRA and the rules / regulations made thereunder, are now permitted to participate as financiers in TReDS. This would augment availability of financiers on TReDS platforms.
- c) Enable secondary market for Factoring Units (FUs) : TReDS guidelines provide for the discounted / financed FUs to have a secondary market, which is, however, not introduced yet. Given the experience gained, TReDS platform operators may, at their discretion, enable a secondary market for transfer of FUs within the same TReDS platform. Such transfers shall, however, be subject to the applicable provisions of RBI's '[Master Direction – Reserve Bank of India \(Transfer of Loan Exposures\) Directions, 2021](#)' dated September 24, 2021 (as updated from time to time), including the eligibility of transferor / transferee as specified in paragraph 3 of the said Master Direction.
- d) Settlement of FUs not discounted / financed : On an average, 17% of FUs uploaded on TReDS platforms are not discounted / financed; for such FUs, TReDS guidelines require buyers to pay MSME sellers outside the system. To overcome the inconvenience caused to MSME sellers and buyers as well as for better reconciliation, TReDS platform operators shall now be permitted to undertake settlement of all FUs – *financed / discounted or otherwise* – using the NACH mechanism used for TReDS. Timeline for funds settlement shall be subject to the provisions of TReDS guidelines (under reference) as well as other relevant statutes like the Micro, Small and Medium Enterprises Development Act, 2006.
- e) Display of bids : TReDS platforms facilitate transparent and competitive bidding by the financiers. To make the process more transparent, the platforms may display details of bids placed for an FU to other bidders; name of the bidder shall, however, not be revealed.

3. This directive is issued under Section 10 (2) read with Section 18 of the Payment and Settlement Systems Act, 2007 (Act 51 of 2007).

Yours faithfully,

(P. Vasudevan)
Chief General Manager-in-Charge