

F.No.16/8/2018-P&G/Policy
Government of India
Ministry of MSME
Office of Development Commissioner (MSME)

(68)

New Delhi, the 9th November, 2018

OFFICE MEMORANDUM

Subject: On-boarding of CPSEs on TReDS Platform.

The Central Government has decided that instructions be issued to all Central Public Sector Enterprises to get themselves on-boarded on the Trade Receivables Discounting System (TReDS) platforms, set up as per the Notification of the Reserve Bank of India. Copy of the Gazette Notification issued in this regard is enclosed for ready reference.

The Department of Public Enterprises is requested to monitor compliance of these instructions by the Central Public Sector Enterprises.

38491
12/11/18

Dr. Kamal

(Santanu Mitra)
Addl. Development Commissioner

Encl. As above

To

The Secretary,
Department of Public Enterprises,
Ministry of Heavy Industries & Public Enterprises,
Govt. of India,
CGO Complex, Lodhi Road,
New Delhi 110 003.

Block 1st

U. Mishra
12-11-18

DD(R)

Endorsement of F.No.16/8/2018-P&G/Policy dated the 9th November, 2018

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Copy to:

1. Secretary (Co-ordination), Cabinet Secretariat, Rashtrapati Bhawan, New Delhi.
2. Secretary Department of Financial Services (DFS), Ministry of Finance, Government of India, for information.
3. Copy to all Secretaries of Government of India, with the request to instruct the Central Public Sector Enterprises under their respective jurisdictions to comply with the instructions of the Central Government.
4. Addl. Secretary, PMO, for information.



(Santanu Mitra)
Addl. Development Commissioner

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Annex

Illustrative Outline of Process flow under TReDS

- a) Corporate and other buyers, including Government Departments and Public Sector Undertakings, send purchase order to MSME seller (outside the purview of the TReDS).
- b) MSME seller delivers the goods along with an invoice. There may or may not be an accepted bill of exchange depending on the trade practice between the buyer and the seller (outside the purview of the TReDS).
- c) Thereafter, on the basis of either an invoice or a bill of exchange, the MSME seller creates a 'factoring unit' (which would be a standard nomenclature used in the TReDS for an invoice or a bill on the system) on TReDS. Subsequently, the buyer also logs on to TReDS and flags this factoring unit as 'accepted'. In case of reverse factoring, this process of creation of factoring unit could be initiated by the buyer.
- d) Supporting documents evidencing movement of goods etc. may also be hosted by the MSME seller on the TReDS in accordance with the standard list or check-list of acceptable documents indicated in the TReDS.
- e) The TReDS will standardise the time window available for buyers to 'accept' the factoring units, which may vary based on the underlying document – an invoice or bill of exchange.
- f) The TReDS may have either a single or two separate modules for transactions with invoices and transactions with Bills of Exchange, if so required. In either case, all transactions routed through TReDS will, in effect, deal with factoring units irrespective of whether they represent an invoice or a bill of exchange.
- g) Factoring units may be created in each module as required. Each such unit will have the same sanctity and enforceability as allowed for physical instruments under the "Factoring Regulation Act, 2011" or under the "Negotiable Instruments Act, 1881"
- h) The standard format / features of the 'factoring unit' will be decided by the TReDS – it could be the entire bill/invoice amount or an amount after adjustment of tax / interest etc. as per existing market practice and as adopted as part of the TReDS procedure. However, each factoring unit will represent a confirmed obligation of the corporate and other buyers, including Government Departments and PSUs, and will carry the following relevant details – details of the seller and the buyer, issue date (could be the date of acceptance), due date, tenor (due date – issue date), balance tenor (due date – current date), amount due, unique identification number generated by the TReDS, account details of seller for financier's reference (for credit at the time of financing), account details of buyer for financier's reference (for debit on the due date), the underlying commodity (or service if enabled).
- i) The TReDS should be able to facilitate filtering of factoring units (by financiers or respective sellers / buyers) on any of the above parameters. In view of the expected high volumes to be processed under TReDS, this would provide the necessary flexibility of operations to the stakeholders.

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j) The buyer's bank and account details form an integral feature of the factoring unit. The creation of a factoring unit on TReDS shall result in automatic generation of a notice / advice to the buyer's bank informing them of such units.

k) These factoring units will be available for financing by any of the financiers registered on the system. The all-in-cost quoted by the financier will be available on the TReDS. This price can only be viewed by the MSME seller and not available for other financiers.

l) There will be a window period provided for financiers to quote their bids against factoring units. Financiers will be free to determine the time-validity of their bid price. Once accepted by the MSME seller, there will be no option for financiers to revise their bids quoted online.

m) The MSME seller is free to accept any of the bids and the financier will receive the necessary intimation. Financiers will finance the balance tenor on the factoring unit.

n) Once a bid is accepted, the factoring unit will get tagged as "financed" and the funds will be credited to the seller's account by the financier on T+2 basis (T being the date of bid acceptance). The actual settlement of such funds will be as outlined under the Settlement section.

o) Once an accepted factoring unit has been financed by a financier, notice would be sent to buyer's bank as well as seller's bank. While the buyer's bank would use this information to ensure availability of funds and also handle the direct debit to the buyer's account on the due date in favour of the financier (based on the settlement obligations generated by the TReDS), the seller's bank will use this input to adjust against the working capital of the MSME seller, as necessary (the TReDS procedures may, if necessary, also indicate that the proceeds of the accepted and financed factoring units will be remitted to the existing working capital / cash credit account of the MSME seller). If agreed by members, the TReDS may also provide the option to members, whereby the financiers would take direct exposure against the buyers rather than through their bankers.

p) On the due date, the financier will have to receive funds from the buyer. The TReDS will send due notifications to the buyers and their banks advising them of payments due. The actual settlement of such funds will be as outlined under the Settlement section.

q) Non-payment by the buyer on the due date to their banker should tantamount to a default by the buyer (and be reported as such as per regulatory procedures prescribed from time to time) and enable the banker to proceed against the buyer. Any action initiated in this regard, will be strictly non-recourse with respect to the MSME sellers and outside the purview of the TReDS.

r) These instruments may be rated by the TReDS on the basis of external rating of the buyer, its credit history, the nature of the underlying instrument (invoice or bill of exchange), previous instances of delays or defaults by the buyer with respect to transactions on TReDS, etc.

s) The rated instruments may then be further transacted / discounted amongst the financiers in the secondary segment.

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t) Similar to the primary segment, any successful trade in the secondary segment will also automatically result in a direct debit authority being enabled by the buyer's bank in favour of the financier (based on the settlement obligations generated by the TReDS). In parallel, it will also generate a 'notice of assignment' intimating the buyer to make the payment to the new financier.

u) In the event that a factoring unit remains unfinanced, the buyer will pay the MSME seller outside of the TReDS.

In order to meet the requirements of various stakeholders, the TReDS should ensure to provide various types of MIS reports including intimation of total receivables position, financed and unfinanced (to sellers); intimation of outstanding position, financed and unfinanced with details of beneficiaries and beneficiary accounts to be credited (for buyers); total financed position for financiers; etc. Similarly, data on unfinanced factoring units in the market should also be made available by the TReDS. The system should also generate due date reminders to relevant parties, notifications to be issued to bankers when a factoring unit is financed, notifications to be issued to buyers once a factoring unit related to their transaction is traded in the secondary segment, etc.