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## FAQs on TReDS

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How to operate practically?

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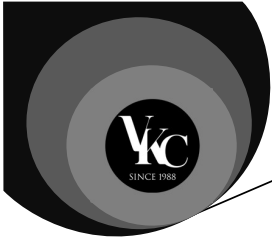
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An institutional framework was devised for facilitation of receivables, which could electronically accept and in turn auction the Micro Small and Medium Enterprises (MSME) bills against large companies, to make the payment to MSMEs more prompt. The Reserve Bank of India (RBI) also considered it necessary to address concerns relating to financing of this sector and introduced Trade Receivables e-Discounting System (TReDS). The TReDS platform enables discounting of invoices of MSME sellers against large corporates, including government departments and public sector undertakings, through an auction mechanism to ensure prompt realisation of trade receivables at competitive market rates. Multiple financiers participate in the auction.

In its latest attempt to address the concerns of MSMEs, the Ministry of Micro, Small and Medium Enterprises (the Ministry), issued a Notification dated November 02, 2018<sup>1</sup> ('Notification'). The Notification mandates all companies with a turnover more than Rs. 500 crore and all Central Public Sector Enterprises, to get themselves onboarded on the TReDS platform. This measure is expected to enable MSME entrepreneurs to access credit from banks, based on their upcoming receivables and resolve their problems of cash cycle, by transferring the risk from a weak seller to a strong buyer.

The mandatory requirement of registration with the TReDS has raised several questions among the large corporates, who were otherwise unaffected by this concept so far. Keeping in mind the need of the hour, we have listed down the probable questions that one can have with respect to TReDS with potential solutions to such questions as well.

This document is divided into four parts – 1) Introduction; 2) Procedural requirements; 3) Reporting requirements; and 4) Other thinkers.

## FAQs

### Introduction

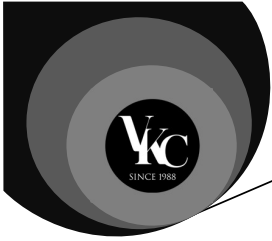
#### 1) What is TReDS?

RBI introduced Trade Receivables electronic Discounting System (TReDS) to address concerns relating to financing of the MSME sector. It is an online electronic platform and an institutional mechanism for factoring of trade receivables of MSME sellers. It enables discounting of invoices through an auction mechanism to ensure prompt realisation of trade receivables. RBI had released Guidelines for setting up of and operating TReDS on December 3, 2014<sup>2</sup> ('Guidelines'). The Guidelines outline the requirements and the basic tenets of operating as a TReDS platform and also prescribes the eligibility criteria for entities desirous of setting up and operating such a system.

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<sup>1</sup> <http://egazette.nic.in/WriteReadData/2018/191729.pdf>

<sup>2</sup> [https://www.rbi.org.in/scripts/bs\\_viewcontent.aspx?Id=2904](https://www.rbi.org.in/scripts/bs_viewcontent.aspx?Id=2904)



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### 2) Who are required to register themselves?

Participants	Eligibility	Whether registration mandatory or not?
<b>Buyer</b>	Corporates including companies and other buyers including Government Departments and Public Sector Undertakings and such other entities as may be permitted by the RBI.	Mandatory for all companies with a turnover more than Rs. 500 crore and all Central Public Sector Enterprises vide Notification dated November 02, 2018.
<b>Seller</b>	MSME entities as per the definition of the Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act).	Optional
<b>Financier</b>	Banks, NBFC Factors, Financial Institutions and such other Institutions as permitted by the RBI.	Optional

### 3) What are the eligibility criteria for the MSMEs to join the TReDS Platform?

The basis of classifying MSMEs is proposed to change from 'investment in plant and machinery/equipment' to 'annual turnover'<sup>3</sup>.

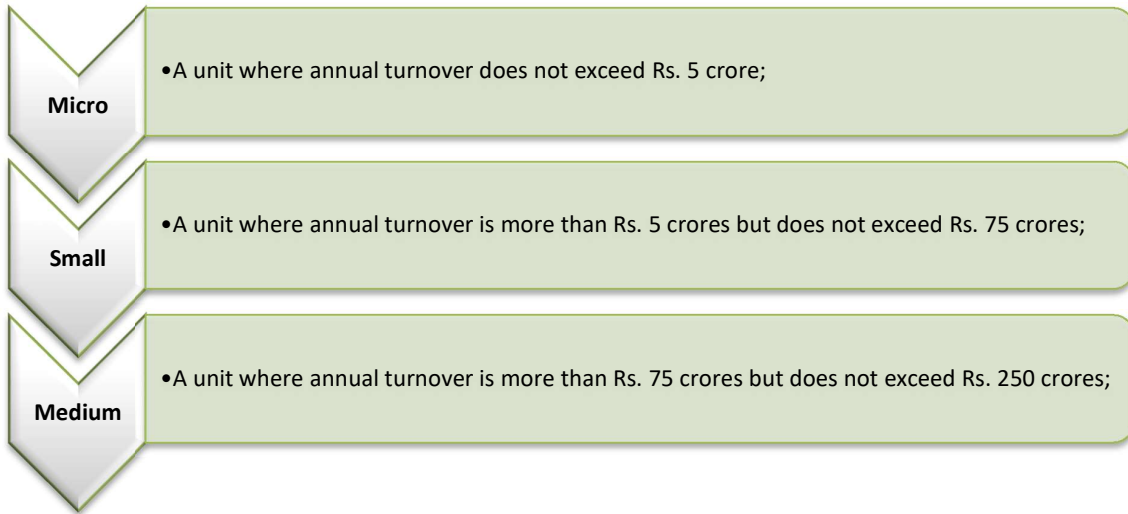
The existing definition of MSMEs is as follows:

	<b>Manufacturing Sector</b>	<b>Service Sector</b>
	<b>Investment in plant &amp; machinery</b>	<b>Investment in equipment</b>
<b>Micro</b>	Does not exceed Rs. 25 lakhs	Does not exceed Rs. 10 lakhs
<b>Small</b>	More than Rs. 25 lakhs but does not exceed Rs. 5 crores	More than Rs. 10 lakhs but does not exceed Rs. 2 crores
<b>Medium</b>	More than Rs. 5 crores but does not exceed Rs. 10 crores.	More than Rs. 2 crores but does not exceed Rs. 5 crores.

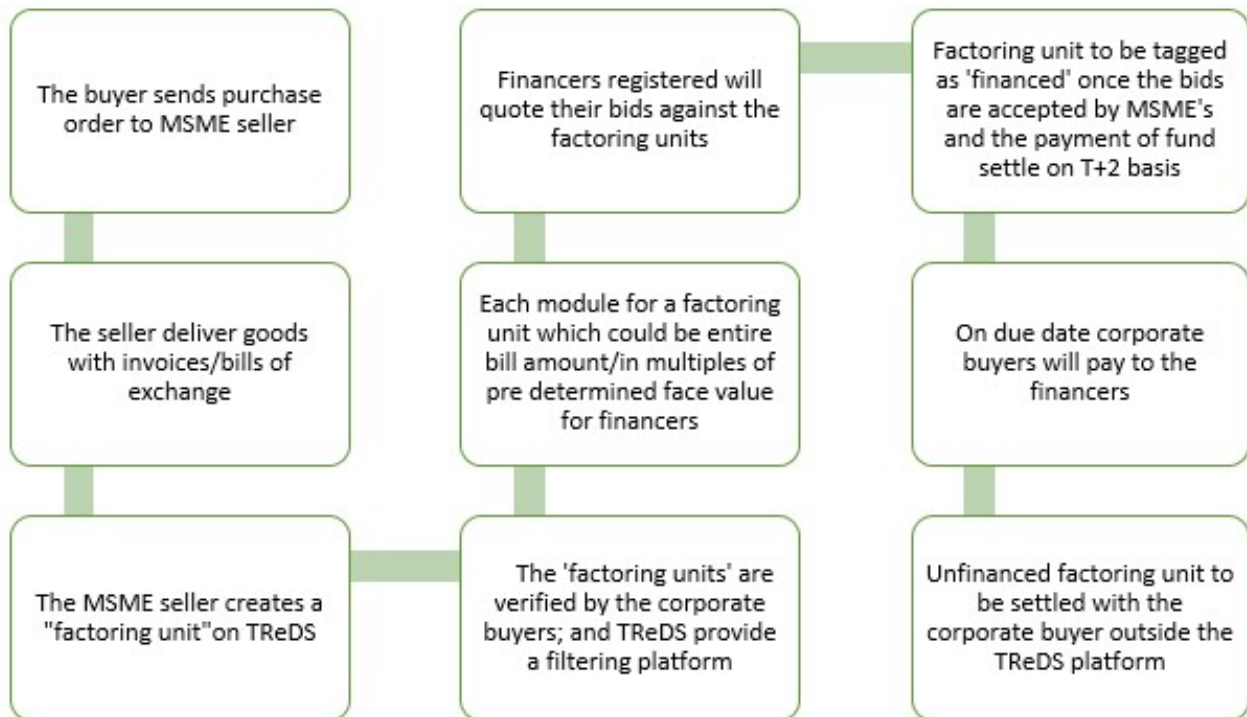
<sup>3</sup> <http://www.prsindia.org/billtrack/the-micro-small-and-medium-enterprises-development-amendment-bill-2018-5289/>

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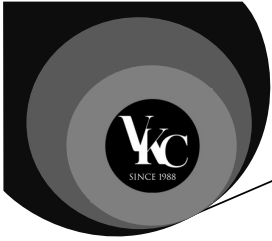
The revised definition<sup>4</sup> of MSMEs shall be as follows:



### 4) What is the TReDS Process flow?



<sup>4</sup> <http://pib.nic.in/newsite/PrintRelease.aspx?relid=176353>



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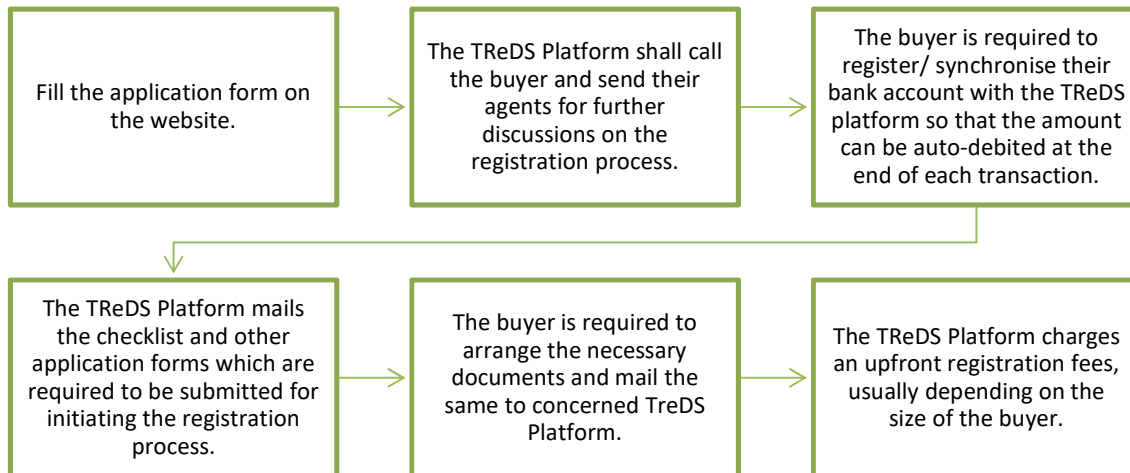
### 5) How many TReDS platforms are there currently?

Currently, the following three platforms are registered with RBI for operating as a TReDS platform.

- Receivables Exchange of India Ltd (RXIL)<sup>5</sup>
- A.TREDS Ltd (Known as Invoicemart)<sup>6</sup>
- Mynd Solutions (Known as M1 exchange)<sup>7</sup>

#### *Procedural requirements*

### 6) What is the course of action of registering on a TReDS platform?



### 7) What are the various documents required for registration?

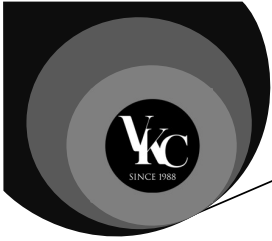
The various documents required are as follows:

- Application Form
- KYC Documents of the Applicant Entity
  - PAN
  - Certificate of Incorporation
  - Memorandum & Article of Association
  - Address Proof of the registered entity
- KYC Documents of the promoters, administrators, authorised signatories, etc.
- Designated bank related documents
- Master Agreement
- Bank confirmation letter

<sup>5</sup> <http://www.rxil.in/Home/Index>

<sup>6</sup> <https://www.invoicemart.com/>

<sup>7</sup> <https://www.m1xchange.com/>



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### 8) What is the cost of onboarding?

The platforms generally, charges the following types of fee:

#### Registration fee

- All the participants intending to register themselves on the TReDS platform will need to pay a one-time non-refundable fee at the time of registration.

#### Annual fee

- In addition to the registration fee, the participant is also required to pay an annual fee.

### 9) What is the payment mechanism for the factored invoice?

After the acceptance of the bid by the financier, the account of the financier is auto-debited on T+1/T+2 basis. Similarly, on the due date, the designated bank account of the buyer will be auto-debited and the payment will be made to the financier in its designated bank account on the same day or the next day. This infer that there is an online payment mechanism.

### 10) What happens in case of default in repayment?

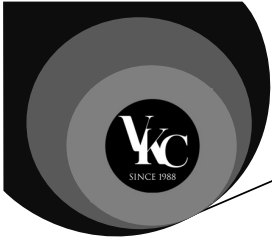
In case there is a default in repayment as on the due date, the transaction shall be marked as 'Failed' on the TReDS platform. This tantamount to breach of contract and therefore, the buyer needs to settle it directly with the financier, outside the TReDS platform. The onboarding agreement between the TReDS platform and the buyer has the clause that in the buyer defaults in repayment on the due date to the financier, then the financier shall accordingly be enabled to enforce its rights against the buyer.

### 11) What is a factoring unit?

The invoices/bills of exchange uploaded by the MSME sellers are required to be verified by the buyers. Once, the buyers accept the invoice, it becomes a 'factoring unit'. Factoring unit can generally be of an entire bill/invoice amount or in multiples of pre-defined face value. Factoring unit shall also mention the details of the buyer and seller, the due date, the issue date, tenure, etc.

### 12) Can the financier resell the factoring unit? If yes, then how does the buyer get intimation of the same?

The factoring unit is a tradeable unit and therefore, it can be sold in the secondary market. The Guidelines states that the buyers should receive a notification once a factoring unit related to their transaction is traded in the secondary segment. Further, the Guidelines also states that the information about the invoices, discounting and quotes shall be disseminated by the TReDS on real time basis, supported by a robust MIS system.



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### 13) Can a factoring unit be withdrawn from the TReDS portal?

The invoice, once uploaded by the MSME seller and accepted by the buyer, becomes a factoring unit. The invoice, once converted into a factoring unit can be withdrawn from the TReDS portal till the time the bid is not accepted by the financier. Once the bid is accepted by the financier, the Factoring Unit cannot be withdrawn.

#### *Reporting requirements*

### 14) What are the reporting requirements?

The Ministry of Corporate Affairs (MCA) has asked Institute of Company Secretaries of India (ICSI) to seek a report on compliance with the Notification from the Company Secretaries of the large companies. ICSI has intimated the need for reporting to all the Company Secretaries, through email, and has also shared a format for reporting. Therefore, the Company Secretary, upon registration of the company on TReDS Platform must ensure the reporting of the compliance to ICSI in the prescribed format.

### 15) Is there a timeframe for the buyers to get themselves registered?

The Notification issued by the Ministry of MSME does not specify any time frame within which a company has to onboard on the TReDS Platform. Further, the communication issued by the Institute does not prescribe a statutory timeline to ensure the registration of the companies on TReDS platform.

### 16) Do the companies who have already onboarded themselves also have to report to ICSI?

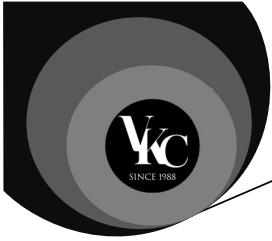
Yes, the companies who have onboarded themselves before the issuance of this Notification are also required to report to ICSI.

#### *Other thinkers*

### 17) Does the jurisdiction of Ministry of MSME extend to all companies?

Section 9 of the MSMED Act, 2006 empowers the Government to issue notifications or guidelines for the benefit of the MSME sector. The relevant extract is reproduced herein below:

*“The Central Government may, from time to time, for the purposes of facilitating the promotion and development and enhancing the competitiveness of micro, small and medium enterprises, particularly of the micro and small enterprises, by way of development of skill in the employees, management and entrepreneurs, provisioning for technological upgradation, marketing assistance or infrastructure facilities and cluster development of such enterprises with a view to strengthening backward and*



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*forward linkages, specify, by notification, such programmes, guidelines or instructions, as it may deem fit.”*

This Notification has also been issued by the Ministry, for the development of the MSME sector, in exercise of the powers of the Government under the aforesaid section. The Notification specifically requires the Registrar of Companies in each State, as the competent authority, to monitor the compliance of the instructions by companies under its jurisdiction. Accordingly, all companies registered under the Companies Act, 2013 and falling under the purview of the Notification, irrespective of whether such companies are covered under the MSMED Act, will have to abide by the contents of the Notification. Hence, the said Notification is applicable on every company which has crossed the stipulated threshold limit of turnover.

### 18) Does the buyer have to register themselves on all platforms?

The Notification is silent on whether the buyer has to register itself on one single platform or it has to onboard on all the platforms. Therefore, for the purpose of compliance, the buyer can register itself on any one of the aforesaid platforms.

However, operationally, a TReDS transaction will be possible only when all the three parties are registered with the same platform. This is because, the counterparty needs to provide acceptance for the invoice as per the RBI TReDS guidelines. Therefore, if the parties do not come to a mutual agreement, there is a possibility that the parties might have to end up getting themselves onboarded on each of the TReDS platform.

### 19) What is the penalty in case of non-compliance?

Currently, neither the Notification nor the communication by ICSI has provided any penalty for non-compliance.

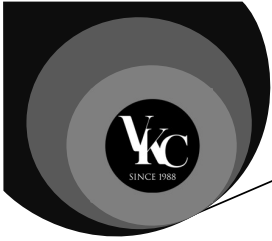
### 20) Why are the buyers reluctant to onboard themselves on the TReDS Platform?

The buyers, generally large corporates, are reluctant to onboard themselves on the TReDS Platform. The reason for this is that they are not comfortable with uploading of invoices on online platforms. Being a transparent system, these corporates are not appreciating the fact that they have to disclose the details of the invoices on the platform. Further, there is also a fear of disclosure of information about their MSME suppliers to their competitors.

### 21) Why will the financiers register themselves on the portal?

The financiers i.e., the Banks or NBFCs Factors, Financial Institutions or such other Institutions as permitted by the RBI have an option to onboard themselves on the TReDS. There is no notification mandating them to onboard themselves on the TReDS platform.





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But still we see that many financiers have onboarded on this platform. This is because registering themselves on the TReDS platform would generate more business for them. It will provide the eligible NBFCs and other financing companies the opportunity to explore new business arena. Therefore, it is a bright opportunity for the financing companies like NBFC-Factors to register themselves as the financiers of the receivables on the TReDS platform.

## **Conclusion**

There is an increase in the government pressure for promoting and pushing the MSME sector for the industrial development. With the issuance of this Notification, the government is giving more emphasis on registering on the TReDS platform. Subsequent to this Notification, a wave can be witnessed regarding the registration of parties on the platform.

While the government has already taken sufficient actions in order to lay the foundation for a better financial environment for the MSMEs, it is now important to focus on carrying out awareness campaigns for the MSMEs. This will be the last mile for the efforts the government has already put in.