

# Standing Committee Report Summary

## The Factoring Regulation (Amendment) Bill, 2020

- The Standing Committee on Finance (Chair: Mr. Jayant Sinha) submitted its report on the Factoring Regulation (Amendment) Bill, 2020 on February 3, 2021. The Bill amends the Factoring Regulation Act, 2011 to widen the scope of entities which can engage in the factoring business. Factoring is a transaction where an entity sells whole or part of its receivables from a customer to a third party (factor) for immediate funds. Receivables is the amount that is owed and yet to be paid by a customer (debtor) for the use of any goods, services, or facilities provided by an entity. The factor subsequently recovers the dues from the customer. Key observations and recommendations of the Committee include:
  - **Increasing access to credit for MSMEs:** While factoring is available for all enterprises the Committee noted the importance of the Bill to address the problem of delay in payments faced by micro, small and medium enterprises (MSMEs).
  - The Committee recommended certain measures to increase access to credit for MSMEs. These include: (i) extension of credit insurance for factoring to provide protection to factors, (ii) grant of specialised MSME funding entity status to factors so that a major portion of their corpus is earmarked for MSMEs, and (iii) promotion of educational initiatives to enable customers, MSMEs, and factors to utilise factoring.
  - **Integration of TReDS with GSTN:** The Trade Receivables Discounting System (TReDS) is an electronic platform for financing of trade receivables of MSMEs. The Goods and Services Tax Network (GSTN) provides the IT infrastructure to the government and taxpayers for implementation of the Goods and Services Tax (GST). In 2019, it was made mandatory for taxpayers with turnover greater than a notified threshold to upload certain GST-related documents to the GSTN portal. These documents include GST invoices, and credit and debit notes for business-to-business transactions.
  - The Committee recommended integrating the TReDS platform with the GSTN e-invoicing portal. This would allow for automatic uploading of all GST invoices onto the TReDS platform, and enable real time access to invoices. It was noted that this would add a layer of authenticity making the TReDS platform attractive for factors, and improve the flow of credit to MSMEs.
- **Mandatory listing of government dues on TReDS:** The Committee recommended that the Bill be amended to mandate listing of receivables from central and state governments on the TReDS platform. This would ensure payments pending from the government to MSMEs are made available to them on a timely basis.
- **Widening scope of factors:** Under the Act, factoring can be undertaken by (i) a non-banking financial company (NBFC), or any other company which is registered as a factor under the Act, and (ii) a bank or statutory corporation (which is exempt from the need to register as a factor). NBFCs can undertake factoring only if more than 50% of their assets and income is derived from the factoring business. While the Bill removed this threshold for NBFCs to engage in factoring, the requirement of registration was retained.
- The Committee suggested that the government consider replacing the word ‘factor’ with the word ‘company’. This would enable all NBFCs to undertake factoring by removing the requirement of registration.
- **Regulatory capacity of RBI:** The Bill widens the scope of NBFCs who can participate in factoring by removing the threshold for participation. The Committee noted that implementation of the Bill could expand the number of factors from seven NBFC-Factors to potentially thousands of factors. This would increase the regulatory responsibility of the Reserve Bank of India (RBI). The Committee emphasised the need for RBI to build up its regulatory resources.
- **Growth of factoring business:** The Committee made certain observations regarding the growth of the factoring business. These include the need to: (i) have a credit rating mechanism for receivables, and (ii) encourage commercial banks to provide wholesale financing for factors.

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