# Factoring Regulation Bill, 2020

March 6, 2021

**In news**

Recently, the Standing Committee on Finance Headed by Jayant Sinha has submitted its report on the Factoring Regulation (Amendment) Bill, 2020

**Key provisions of the bill**

The proposed bill seeks to amend the Factoring Regulation Act, 2011 to widen the scope of entities which can engage in factoring business. **Following changes have been proposed under the bill:**

**Modifying the definition of receivables:**

- The 2011 act defines receivables as (all or part of or undivided interest in) the monetary sum which is the right of a person under a contract.
- This right may be existing, arise in the future, or contingent arising from use of any service, facility or otherwise.
- The proposed Bill amends the definition of receivables to mean any money owed by a debtor to the assignor for toll or for the use of any facility or services

**Definition of assignment to be changed:**

- The 2011 act defines assignment to mean transfer (by agreement) of undivided interest of any assignor in any receivable due from the debtor, in favour of the factor.

- **Amendment:** The Bill amends the definition to add that such a transfer can be in whole or in part (of the undivided interest in the receivable dues)

**Definition of factoring business:**

- Under the Factoring Regulation Act, 2011, factoring business means the business of acquisition of receivables of an assignor by accepting assignment of such receivables, or financing against the security interests of any receivables through loans or advances.

- **Amendment:** The proposed bill amends this to define factoring business as acquisition of receivables of an assignor by assignment for a consideration.
- It also adds that acquisition should be for the purpose of collection of the receivables or for financing against such assignment.

**Registration of factors with RBI:**

- As per the Act, no company can engage in factoring business without registering with the RBI.
- For a NBFC to engage in a factoring business, its financial assets in the factoring business, and income from the factoring business should both be more than 50% (of the gross assets/net income) or more than a threshold as notified by the RBI.
- The Bill removes this threshold for NBFCs to engage in factoring business.

**Registration of transactions:**

- As per the act, factors are required to register the details of every transaction of assignment of receivables in their favour.
- These details should be recorded with the Central Registry setup under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002 within a period of 30 days.

- If they fail to do so, the company and each officer failing to comply may be punished with a fine of up to five thousand rupees per day till the default continues.
- **Amendment:** The Bill removes the 30 day time period. It states that the time period, manner of registration, and payment fee for late registration may be specified by the regulations.

**Trade receivables:**

- The Proposed Bill also states that where trade receivables are financed through Trade Receivables Discounting System (TReDS), the details regarding transactions should be filed with the Central Registry by the concerned TReDS, on behalf of the factor.

**Regulation by RBI:**

**The Bill empowers RBI to make regulations for:**

- the manner of granting registration certificates to a factor
- the manner of filing of transaction details with the Central Registry for transactions done through the TReDS

**Trade Receivables Discounting System (TReDS)**

TReDS is an electronic platform for facilitating financing of trade receivables of Micro, Small and Medium Enterprises.