

# Trade Receivables Discounting System (TReDS)

January 20, 2021

**In News:** Trade Receivables Discounting System or TReDS is a welcome step by RBI to secure finances for micro, small and medium enterprises. It has been set up under the regulatory framework set up by RBI under Payment and Settlement Systems Act 2007.

## Rationale Behind It

- MSMEs have always been at the receiving end of the wrath of the manipulative practices by large business houses and find it very hard to convert their trade receivables into liquid funds.
- Thus, RBI has come forward to give an effective solution to the pan-India issue and has defined TReDS as the institutional mechanism for financing of trade receivables of MSMEs from corporate buyers through two or more financiers known as Trade Receivables Discounting System.
- TReDS deals with discounting of both invoices and bills of exchange.
- It was well-equipped to deal with both receivables factoring as well as reverse factoring to facilitate higher transaction volumes and better pricing.
- MSMEs sellers, corporate buyers, financiers which include banks and non-banks will be direct participants in this.
- TReDS thus serves as a platform to bring these stakeholders and participants together for discounting, trading and settlement of the invoices.
- The bankers who are linked to MSMEs and corporate buyers may be provided with the relevant details of discounted invoices of respective clients, if required.

- TReDS works in two phases-first one deals with discounting of factoring units (invoices/bills) by financiers thus ensuring fund-flow to MSME.
- The second phase comprises re-discounting of the factoring units by the financiers. Random audits may also be introduced to verify authenticity of invoices and genuineness of the transactions.
- There is a standard mechanism in place to get the buyers and sellers on-board.
- The KYC documentation to know the MSME is simple.
- TReDS has a one-time agreement between various participants and TReDS. This is referred to as the Master agreement.
- The latter should have three clauses broadly-obligation to pay on due date, no recourse to disputes regarding quality of endgoods and no off-sets.

### **What is TReDS?**

- TReDS is an institutional mechanism set up in order to facilitate the discounting of invoices for MSMEs from corporate buyers through multiple financiers.
- Invoice discounting on TReDS involves three participants MSME Supplier, Corporate Buyer and Financier.
- The invoice is uploaded by either buyer or supplier depending on the method of discounting and is approved by the other party.
- Once the invoice is approved the financiers on the platform start to bid on the invoice.
- The supplier accepts the bid and the discounted amount is credited in its account in T+1 day, where T is the day of acceptance.
- The Reserve Bank of India granted approval to Mynd Solutions Pvt Limited to set up and operate M1xchange, the first trade receivable exchange in India.
  - M1xchange has digitally transformed the process of gaining access to working capital for MSMEs via

- invoice discounting through multiple financiers.
- TReDS is an answer to the everlasting cash flow issues of the MSMEs in India and an effective solution to drive the MSME sector to the next phase of Indian economy.

### **Following are the Salient Features of TReDS**

- Easy Access to Fund
- No paperWork
- Single Platform for sellers, Buyers and Financiers
- Transact Online
- Competitive Discount Rates
- Seamless Data Flow
- Standardized Practices