

# **TReDS**

## **Trade Receivables Discounting System**

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Note: This article is written only from the point of view of MSME Sellers and hence points relevant to them are only mentioned.

### **The Problem**

MSMEs even after contributing in the development of the nation, faces constraints in obtaining receivables from their buyers. Most of the MSMEs faces delays in payments, due to dependency on a particular buyer or due to delay in Government procedures in clearing the bills. Many MSMEs are afraid that if they press harder for payments on buyer(s), the buyer(s) may stop procuring goods or services from them and the MSME seller will lose the business. The MSME sellers will compromise to the conditions of the buyer.

Under MSME Act, 2006, it is stated that the buyers has to make payment of dues to MSMEs within 45 days from the date of acceptance or deemed acceptance of the invoice of a MSME supplier. Many MSME suppliers were having separate agreement(s) with the buyers for making payment beyond 45 days. MSME suppliers went into such agreement(s) may be due to ignorance or due to the dependency on the buyer(s). This law was in effect from the year 2006, but never strictly implemented in the past.

Due to the above issue MSME suppliers were getting badly effected and need to bring more and more working capital to sustain which was very difficult and existence of such MSME suppliers were at stake. Many times, to stay in business they take loan(s) from private money lenders at a very higher rate of interest and face the pain of double edged sword as the buyer delays the payment, the MSME supplier continues to supply to the same buyer to stay in business and also have to make payment of interest for the loan taken.

### **GOVERNMENT INITIATIVE**

Government of India after analysing the situation, on 22<sup>nd</sup> January, 2019 has notified Specified Companies (Furnishing of information about payment to micro and small enterprise suppliers) Order, 2019 through the Ministry of Corporate Affairs. According to the Order every specified company (companies, who get supplies of goods or services from micro and small enterprises and whose payments to micro and small enterprise suppliers exceed 45 days from the date of acceptance or the date of deemed acceptance of the goods or services) shall file a half yearly to the Ministry of Corporate Affairs stating the following

- (a) The Amount of payment due; and
- (b) The reasons of delay

Every specified company shall file a return in “MSME Form I”

by 31<sup>st</sup> October for the period from April to September and

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by 30<sup>th</sup> April for the period from October to March.

Though Government has made it compulsory for companies to report the delays, the MSME suppliers are not getting immediate and direct benefits always and hence, the problem continues with many MSME suppliers.

### **TReDS**

As an immediate and direct relief to the MSME suppliers, the Government has come up with its own factoring and bills discounting platform known as TReDS (Trade Receivables Discounting System).

TReDS will facilitate receivables **factoring, reverse factoring, and bills discounting**. Here one of the major advantage to the MSME suppliers is that the transactions processed through TReDS will be **“without recourse”**.

TReDS itself doesn't interact with the MSME suppliers and buyers. It provides a platform where factoring and bills discounting will take place.

Currently there are 3 exchanges registered under TReDS system:

1. Receivables Exchange of India (RXIL);
2. Invoicemart; and
3. Mynd Solutions (M1 exchange)

### **REGISTRATION IN TReDS**

The following have to compulsorily register with TReDS system:

1. All companies with a turnover more than Rs.500 Crores;
2. All Central Public Sector Enterprises;
3. MSME Sellers who want to take benefit of TReDS system;
4. Buyers of TReDS registered MSME Sellers; and
5. The financiers want to finance factoring or bills discounting.

For getting registered on TReDS system, parties need to pay

1. One-time non-refundable registration fees, and
2. Annual Fees.

At the time of registration, both, MSME sellers as well as buyers bank accounts will be synchronised with the TReDS platform.

### **PROCESS FLOW**

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Both MSME supplier (supplier) as well as the buyer should be registered with one of the exchanges registered with TReDS. Supplier needs to login into the account registered and avail the factoring or bills discounting service by entering the details of the invoice and the due date for payment by the buyer.

The invoice entered by the seller will reflect in the buyers TReDS registered account which he has to accept. If there is any dispute and the buyer has not accepted the invoice on TReDS system, then, the supplier cannot take benefit of factoring or bills discounting services of TReDS system for that invoice.

Once the buyer accepts the invoice in TReDS system, the invoice becomes a “factoring unit”.

Once the factoring unit is created, it will be made available to the financiers registered on TReDS system. Financiers will quote their bids against factoring units on TReDS platform. The seller is free to accept any of the bids and the financier will receive the necessary intimation.

Once the 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 within 2 days excluding the bid acceptance day (on the basis of T+2).

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, seller’s bank will use this input to adjust against the working capital of the MSME seller, as necessary.

On the due date, the financier will receive funds from the buyer’s bank . 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.

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

On the due date, if there is any default by the buyer in making payment of the factoring unit, the buyer will be handled by the buyer’s bank and will not be the responsibility of the TReDS. Hence, the settlement process ensures payments to relevant recipients on due date, thus, facilitating the smooth operations on the TReDS. However, it would not entail a guaranteed settlement by the TReDS.

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