Factoring Regulation (Amendment) Bill, 2021

Why in News

Recently, **Rajya Sabha** has passed the **Factoring Regulation (Amendment) Bill, 2021** to bring changes in the legislation aimed at helping the Micro, Small and Medium Enterprises (MSME) **sector.**

- It has incorporated many suggestions from the **UK Sinha Committee.**

Factoring business

- Factoring business is a business where an entity acquires the receivables of another entity for an amount.
    - Note that **credit facilities provided by a bank against the security of receivables** are not considered as factoring business.
- **Factor** can be a **bank, a registered non-banking financial company or any company registered under the** Companies Act.
- **Receivables** is the total amount that is owed or yet to be paid by the customers (referred as the debtors) to the assignor for the use of any goods, services or facility.

Key Points

- **Key Provisions of the Bill:**
    - **Change in the Definitions:**
        - It amends the definitions of **"receivables", "assignment", and "factoring business"** to bring them at par with international definitions.
    - **Relaxation to NBFCs' Factoring Threshold:**
        - The bill **seeks to amend the Factoring Regulation Act, 2011 to widen the scope of entities** which can engage in factoring business.
        - The current law which gave the Reserve Bank of India authority to allow non-bank finance companies to remain in factoring business only if it was their principal business.
            - That is, **more than half of assets were to be deployed and income earned from factoring business.**
        - The **Bill removes this threshold** and opens up the opportunity in this business to more non-bank lenders at a time small businesses are facing financial stress.
    - **TReDS to Register Charges:**
        - The Bill 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.**

        - TReDS is an **electronic platform for facilitating financing of trade receivables of MSMEs.**
    - **RBI to Regulate:**
        - It empowers **Reserve Bank of India (RBI)** to make **regulations for granting registration certificates to a factor, filing of transaction details** with the Central Registry and all other matters.
    - **No time-bound Registration:**
        - It **removes the 30-day time period for the factors to register the details of every transaction** entered by them. The registering authority for such transactions is the Central Registry setup under the **Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, 2002.**
- **Significance:**
    - **Allowing non-NBFC factors and other entities** to undertake factoring is expected to **increase the supply of funds** available to small businesses.
    - This may **result in bringing down the cost of funds and enable greater access** to the credit-starved small businesses, ensuring timely payments against their receivables.
    - MSMEs will get the **easier liquidity** which will help in their operation.
        - MSMEs are facing difficulty due to **delay in receivables and this bill will help in ensuring smoother working capital cycle and healthier cash flow.**
    - It will **liberalise the restrictive provisions in the Act** and at the same time ensure that a strong regulatory/oversight mechanism is put in place through the RBI.
- **UK Sinha Committee:**
    - The Reserve Bank had set up an eight-member expert committee under the leadership of the former chairman of **Securities and Exchange Board of India (SEBI),** UK Sinha to review the framework for the MSME sector, in 2019.
    - It has made recommendations with regard to amendments in MSME Development Act, strengthening of financial delivery mechanism, improving marketing support, encouraging technology adoption and strengthening of cluster development support for MSMEs etc.

Source: IE