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December 3, 2014

RBI releases Guidelines for setting up of and operating TReDS

The Reserve Bank of India (RBI) today announced the [guidelines for setting up and operating the Trade Receivables Discounting System \(TReDS\)](#). TReDS is a scheme for setting up and operating the institutional mechanism to facilitate the financing of trade receivables of micro, small and medium enterprises (MSMEs) from corporate and other buyers, including government departments and public sector undertakings (PSUs) through multiple financiers.

The guidelines outline the requirements and the basic tenets of operating the TReDS, including the system participants, their roles, transaction process flow, settlement process, etc., besides indicating the eligibility criteria for entities desirous of setting up and operating such a system. The activities of the system will have to adhere to legal and regulatory requirements in vogue.

The TReDS will be an authorised payment system and will also be subject to the oversight of the Reserve Bank of India under the Payment and Settlement Systems (PSS) Act, 2007.

The general guidelines as well as the application format for any non-bank entity to seek authorisation under the PSS Act for operating a payment system are available at <http://rbidocs.rbi.org.in/rdocs/Publications/PDFs/86707.pdf>. Entities meeting the eligibility criteria as outlined in the Guidelines and desirous of setting up the TReDS, may apply in the prescribed format to the Chief General Manager, Department of Payment and Settlement Systems, Reserve Bank of India, 14th Floor, Central Office Building, Shahid Bhagat Singh Marg, Mumbai-400001. Applications will be accepted till the close of business on February 13, 2015.

Background

The Governor, in his statement on September 04, 2013 had announced the intention to facilitate Electronic Bill Factoring Exchanges in the country, which could electronically accept and auction MSME bills against large companies so that MSMEs could be paid promptly. MSME sector faces the problem of delayed payment mainly due to their dependency on their buyers within corporate and other sectors, including government departments/undertakings. They are often unable to take up the problem of delayed payments through appropriate institutional setup created for the purpose.

The Reserve Bank of India published a concept paper on "[Micro, Small & Medium Enterprises \(MSME\) Factoring-Trade Receivables Exchange](#)" in March 2014 taking into account the interest expressed by a few entities and in consultation with select stakeholders.

Based on the public comments received on the concept paper, the [draft guidelines](#) for setting up of and operating TReDS were formulated and hosted on RBI website on July 22, 2014. The feedback received from public/stakeholders, have facilitated the finalisation of these guidelines which are issued under Section 10(2) read with Section 18 of the Payment and Settlement Systems (PSS) Act, 2007.