

# INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

21st Authority Meeting held on 27.09.2024

## Gist of Agenda item: Draft IFSCA (Registration of Factors and Registration of Assignment of Receivables) Regulations, 2024

### I. Background:

IFSCA had issued the “Guidelines on Factoring and Forfeiting of Receivables” (“the guidelines”) on August 17, 2021. Subsequently, vide gazette notification dated October 14, 2021 by DEA, MoF inserted the Factoring Regulation Act, 2011 (FRA) to the First Schedule of the IFSCA Act, 2019, thereby enabling IFSCA to exercise the powers of RBI under FRA for IFSC.

2. FRA contains the overarching framework for undertaking factoring transactions in IFSC and the regulation of such transactions including aspects like registration of factors, specifying rights and obligations of parties to contract etc. Considering the fact that the regulatory powers under FRA for IFSC have now been vested with IFSCA, the guidelines have become redundant and may be withdrawn.

3. FRA read with Sec 13 of IFSCA Act, 2019 prescribes IFSCA to make regulations for the following:

i) Section 3 of FRA requires every factor (except those specifically exempted under section 5) to obtain certificate of registration from IFSCA to commence or carry-on factoring business in IFSC. Section 5 of FRA exempts Banks, Statutory corporations and Government companies from requirement of registration as a factor for carrying on factoring business Further section 31(2)(a) of FRA empowers IFSCA to make regulations regarding the manner of granting of such certificate of registration.

Further, a Factor is defined under FRA as a non-banking financial company (as defined under Reserve Bank of India Act, 1934) or any body corporate established under an Act of Parliament or any State Legislature or any Bank or any company registered under the Companies Act, 1956 engaged in the factoring business;

and

ii) Section (19)(1A) of FRA states that any trade receivables financed through a Trade Receivables Discounting System, shall be filed with the Central Registry on behalf of the factor by the Trade Receivables Discounting System concerned, in such manner as may be specified by regulations. TREDS is defined under FRA as a payment system authorised by the Reserve Bank under section 7 of the Payment and Settlement Systems Act, 2007 for the purpose of facilitating financing of trade receivables;

4. In exercise of the powers mentioned at point 3 above, draft IFSCA (Registration of Factors and Registration of Assignment of Receivables) Regulations, 2024 is proposed to be notified to satisfy the objectives as stated below:

- a) lay down the manner of applying for and grant of Certificate of Registration to entities who propose to do factoring business in IFSC.
- b) lay down the manner of filing of particulars of assignment of receivables in factoring transactions with the Central Registry by a Trade Receivable Discounting System (TReDS), registered with the Authority, on behalf of factors.

5. Further, as a measure of grandfathering registrations issued under the extant provisions, a deeming provision has been added in the proposed regulations, for the entities which has been granted certificate of registration by the Authority for undertaking factoring business, prior to the commencement of these regulations has having been deemed to have been issued under the proposed regulations

## **II. Public Consultation:**

6. Draft of proposed Regulations had been issued for public consultation on August 30, 2024 for 21 days (i.e till September 20, 2024) in line with the requirement for regulation 4 of the IFSCA (Procedure for making the Regulations) Regulations , 2021. As on September 18, 2024, only one entity (viz. India Factoring and Finance Solutions Private Limited (IFFSL) ) has provided comments on the proposed regulations. Detailed comments along with the justification on requirement for making changes (if required) in proposed Regulations (if any) is placed at Annexure-II. It is also to be noted that, any comments received from September 19<sup>th</sup> to September 20<sup>th</sup> will be analysed separately and shared with the Authority.

## **III. Proposal :**

7. As provided in column 7 in Annexure-II to the note, no change is suggested to the proposed regulations, as the changes suggested by IFFSL on proposed regulations in comment 1, 2 and 5 are not in line with FRA. Further with respect to comment 2 and comment 4, the suggestions of allowing filing of assignment of receivables on whole turnover basis as well as on invoice basis is already permitted under the proposed regulations.

In the view of the above, it is proposed that Draft IFSCA (Registration of Factors and Registration of Assignment of Receivables) Regulations, 2024 (attached as Annexure I) may be approved and approval may also be accorded for getting the regulations notified.

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