

DEFAULT HANDLING PROCESS

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Version 1.0



Receivables Exchange of India Limited

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Table of Contents

BACKGROUND	3
PURPOSE	3
SETTLEMENT	3
SETTLEMENT RISKS	4
IDENTIFICATION OF DEFAULT	4
ADDRESSING DEFAULTS	4
Document sharing	4
Transaction rights withdrawn (for the defaulter Buyer)	5
Information sharing	5
Defaulter Reporting to Regulatory Authority	5
Deregistration / Suspension of Participant	5
Sharing of defaulter information with other TReDS Exchanges	5

BACKGROUND

Receivables Exchange of India Limited (RXIL) has been set up to operate the TReDS (Trade Receivables Discounting Systems) Exchange. One of the major activities of TReDS process is “Settlement” of all the transactions undertaken on the TReDS platform.

As a process, RXIL determines obligations for all the transactions undertaken on the TReDS platform and sends these obligations at the designated time to its sponsor bank for uploading on NPCI. While NPCI deals with various banks during the settlement process, RXIL communicates with its various participants for ensuring smooth settlement of the transactions. NPCI provides various reports to RXIL through the sponsor bank to support RXIL in its operations.

PURPOSE

The purpose of this document is to provide a mechanism to follow on occurrence of default in the settlement process on the TReDS platform.

This policy seeks to cover the following aspects:

- Settlement process
- Identification of default
- Addressing defaults

Audience

- Management
- Settlement team
- Participants on RXIL TReDS platform

SETTLEMENT

All transactions done on the RXIL TReDS platform result into obligations at 2 stages as under:

- Disbursement leg (also called Leg-1) : Payment by Financier to Seller
- Repayment leg (also called Leg-2) : Repayment by Buyer to Financier

All transaction due on the next value date is sent to the Sponsor bank for onward instruction to NPCI. It is pertinent to note that NPCI has classified the entire settlement operations into 3 sessions by NPCI.

- Debit session where all successful debits are crystallised. NPCI identifies all credit records and initiates Credit 1 session. A return file is received after closure of Dr1 session along with Ack for Cr1 session. The return file is analysed to identify if any debit has failed. The fact of failure and the reason for failure is sought. Thereupon, details of credit party is shared with them to provide them an opportunity to do an outside settlement on the same day. In case settlement is sought to be done on a different day, the obligations are resubmitted to NPCI on the next settlement day. Charges are to be borne by the debit party whose obligations get failed.

- Credit 1 session is a session where all transaction related credit records except RXIL charges are settled. In case of failure in the credit session the obligations is reattempted on the next available settlement day on request of participants.
- Credit 2 session is a session where credits due to RXIL are settled for only successful transaction related settlements.

SETTLEMENT RISKS

The settlement risk is the risk that a counterparty, whether a participant or other entity, will have insufficient funds to meet its financial obligations as and when expected, although it may be able to do so at a future date. This risk could further lead to principal risk. (Principal Risk is the risk of losing the transaction value due to bankruptcy or default). Thus, both parties to the financial transaction are potentially exposed to settlement risk on the settlement date. Settlement related issues have the potential to create systemic problems, particularly in the cases of insolvency, failure of the financial market infrastructure or moratoriums issued by the central bank.

IDENTIFICATION OF DEFAULT

Based on the return file for Debit sessions, all failed debits are identified. Further the TR file yield information on all transaction that have failed.

- Leg-1 failures result in cancellation of transaction and is outside scope of this policy
- Leg-2 failures result in failure of a committed obligation to Financier by Buyer and considered as default (as under) come with scope of this policy:
 - After failure, 5 working days have passed and Buyer has neither settled directly with financier or asked for a settlement extension
 - After failure, Buyer has raised a valid extension request and financier has either rejected it or not approved it within 2 working days.

ADDRESSING DEFAULTS

Document sharing

As per RBI TReDS guidelines, defaults by Buyers shall be managed by financier directly. RXIL TReDS will only provide the financiers necessary support by providing available documents evidencing liability and liability date of the Defaulter. These include:

- Application Form
- Master Agreement
- KYC documents of Company
- KYC documents of Authorised signature
- KYC documents of administration of buyer's company.
- Debit mandate
- RXIL will also provide the audit trail of the particular transaction performed on TReDS platform by the buyer (if required).

The financier will be free to pursue the matter in a manner they feel necessary.

Transaction rights withdrawn (for the defaulter Buyer)

The Buyer shall not be allowed to undertake further transaction resulting into higher exposure on the platform till settlement of all the obligations.

Information sharing

The fact of the default by the Buyer shall be shared with all financiers on the platform. Following details will be shared:

- Defaulting buyers
- Number of invoices
- Amount defaulted
- Total exposure
- Default date
- No. of days for Default
- Whether default settled / Outstanding

This may result into claims by all or some of the financiers on platform to settle their dues and these shall be treated like defaulted amount. Separate menu to be created for the defaulted buyer list and details of default as mention above.

Defaulter list to be share with all the financier / prospective financier on the platform whether the other financier have exposure on the defaulted buyer or not.

Defaulter Reporting to Regulatory Authority

1. Reporting to RBI: Defaulter list for the particular month and defaulter outstanding as on the month-end will be reported to RBI every month along with Business Performance MIS.
2. Reporting to DFS: Defaulter outstanding for the particular week will be reported to DFS on weekly basis.

Deregistration / Suspension of Participant

In case of defaults due to insufficiency of funds (if not settled within the 5 days), the Participant would be de-registered immediately after repayment of all dues to all financiers. Status with respect to default settlement will be updated based on the confirmation received from financier.

Sharing of defaulter information with other TReDS Exchanges

TReDS exchanges can form an association / common forum to share defaulter list with each other for better governance. This information can be share on monthly basis for the outstanding default.