

Business Rules

Trade Receivables Discounting System (TReDS)

Version 1.5

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Receivables Exchange of India Limited

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Note: The Glossary sets out the indicative meanings/ scope of the capitalised terms used in these Business Rules and not otherwise defined.

1 Participant Empanelment

1.1 Scope

The process followed for registration of Participants on the TReDS platform is covered in this section.

1.2 Who can apply for registration?

The following categories of Applicants can be registered on TReDS platform subject to such Applicant being engaged in business for at least 1 year (except Financiers) prior to the date of registration:

| | |
|-------------------|---|
| Sellers | ▪ The Sellers should be a MSME as defined under Section 7 of the Micro, Small and Medium Enterprises Development Act, 2006, supplying goods and / or services to Buyers. |
| Buyers | ▪ Corporates and other buyers including Government Departments and Public Sector Undertaking and such other entities as may be permitted by the Reserve Bank of India ("RBI") from time to time to participate on the TReDS platform as Buyers. |
| Financiers | ▪ Banks, Non-banking Financial Company - Factors and such other institutions as may be permitted by RBI from time to time to participate on the TReDS platform as Financiers. |

1.3 How to Register on TReDS platform?

The Applicants shall complete the following steps:

- Creation of temporary User ID
- Online submission of Application and requisite documents
- Execution of Master Agreement
- Submission of printed signed application and self-attested / attested documents to RXIL
- Verification of information provided in the application and documents by RXIL and confirmation to the Applicant
- Payment of Registration Fee by the Applicant

After satisfactory completion of the process RXIL to initiate activation process for the Applicant to use the TReDS platform.

1.4 Creation of Temporary User ID

Applicant may visit the TReDS platform (www.treds.in) and create a temporary user ID. For creation of the temporary user ID, following minimum details will be required:

- Name of User of the Applicant creating the temporary user ID

- Name of the Applicant
- Type of the Applicant
- Constitution of the Applicant (in case of Seller and Buyer)
- Permanent Account Number (PAN) of the Applicant
- A valid mobile number of the User
- A valid email ID of the User

For creation of the temporary user ID, the User of the Applicant will provide a user id and password. Such choice of user ID will be subject to availability. In addition, the user will have to select a security question and answer (to be used for password recovery).

This new user ID will be temporary in nature and will be active for a period of 30 days from the date of creation of this user ID.

During this period of 30 days, the Applicant will be required to apply online for registration on the TReDS platform.

1.5 Online Submission of Application and Requisite Documents

The Applicant shall apply online for registration on the TReDS platform using the temporary user ID. The Applicant may apply for registration in the desired category subject to fulfilling the eligibility criteria.

The User of the Applicant shall fill the relevant fields in the application form including the valid email IDs and mobile number of:

- (i) in case of Sellers, at least 2 Promoters/Authorised Officials (in case of proprietorship concern, only proprietor's email id and mobile number);
- (ii) in case of Buyers and Financiers, at least 1 Authorised Official

The Applicant shall have to authorise a representative as an Admin User / Administrator and furnish details of name, designation, mobile number, email ID etc. of the Admin User in the application. An authorisation in the form of letter / declaration / Board Resolution from the Applicant, authorising the said official to act as an Admin User shall be provided to RXIL.

The User needs to submit the duly filled application form online and upload duly attested KYC documents and other supporting documents along with the application for processing / approval to RXIL.

List of KYC documents of the Applicant, the Promoters, the Admin User and other Authorised Officials (including officials signing the Master Agreement as per the KYC guidelines issued by the RBI and list of other mandatory supporting documents required to be provided as part of the application).

Note: KYC documents are required to be furnished for the Applicant, the Promoters (for Seller and Buyer only), Admin Users and other Authorised Officials.

1.6 Specific Rules for Registration

1.6.1 Seller Registration

The Sellers should be a 'MSME' as per Section 7 of the MSMED Act, 2006.

The following additional documents are required to be mandatorily submitted along with the application form by Sellers in connection with registration:

- A certificate (as per specified format), from a chartered accountant confirming the status of Seller being a MSME. The CA certificate should also indicate the details of the designated bank account to be used for TReDS. The certificate should not be older than 3 months as on date of submission of the online application.
- Proof of registration with the relevant tax authorities' viz., CST, VAT, Service Tax etc.
- A confirmation letter, on the lines of format provided on the TReDS platform, from the designated working capital / current account banker of the Seller.
- The Sellers need to furnish all working capital account details based on their borrowing arrangement (including any sole banking, multiple banking and consortium banking arrangements).
- If working capital is availed under multiple banking arrangements, details of all the working capital banks to be furnished along with the details of the Designated Bank and the Designated Bank Account where the Seller wants to receive the Factored Proceeds.
- If working capital is availed under consortium arrangement, details of lead bank and the designated working capital bank must be provided (if it is different from lead bank), where the Seller wants to receive the Factored Proceeds.
- In case the Seller is not having any working capital facility, Factored Proceeds will be credited to the current account of the Seller. However, as and when the Seller avails working capital facility, the Seller needs to inform RXIL and accordingly update the bank account details and the Factored Proceeds will be credited in the working capital account.
- Bank Mandate form as per the prescribed format along with a cancelled cheque to be submitted by the Seller to RXIL.
- Other documents as per list provided by RXIL.

Details of the Designated Bank and Designated Bank Account updated with RXIL will be notified to all the working capital bankers of the Seller on registration under RXIL.

On successful registration and Activation on the TReDS platform, the system will generate the Seller's Unique Member Code which will be forwarded to the registered email IDs of the Seller.

A separate email will be sent to the registered email id with the password for the Admin User.

On registration on the TReDS platform, an alert / notification shall be sent to all the working capital bank(s) of the Seller.

1.6.2 Buyer Registration

The Buyer should be an eligible Applicant as per Section 1.2 above. The Buyer should have its existing business operations for a period of minimum 1 year prior to its application for registration on the TReDS platform.

Bank Details to be furnished by the Buyer:

- All the working capital account details based on their borrowing arrangements along with the details of designated account from where repayment shall be arranged by the Buyer for the Factoring Units factored / financed on the TReDS platform.
- If working capital is availed under multiple banking arrangement, details of all working capital bankers is to be furnished along with a details of designated account from where the repayment shall be made on the Due Date.
- If working capital is availed under consortium arrangement, details of lead bank and designated working capital bank to be provided (if it is different from lead bank), from where the repayment shall be made on the Due Date.
- Details of the Designated Bank Account updated in RXIL shall be notified to all the working capital bank of the Buyer as defined above.
- The Buyers shall obtain confirmation from the Designated Bank with respect to various disclosure / compliance as per the prescribed format, and forward it to RXIL along with application form. The confirmation letter format may be downloaded at the time of downloading the filled application form.

The Buyers have to submit an Auto Debit mandate to RXIL for onward submission to the respective Buyers' Designated Bank for Auto Debit for payment on Due Dates for Factoring Units factored / financed on the TReDS platform, based on the obligations generated and forwarded by RXIL.

On successful completion of the registration process and Activation on the TReDS platform, the system will generate Buyer's Unique Member Code which will be forwarded to the registered email-IDs of the Buyer.

On registration under RXIL, an alert / notification shall be sent to all working capital banks of the Buyer as defined above.

1.6.3 Financiers Registration

The Financiers should be eligible entities as per Section 1.2 above.

The Financiers will need to furnish details of one Designated Bank Account from where Factored Proceeds shall be remitted to Seller's bank account (Leg-1) and where settlement payments will be credited from Buyer's bank account (Leg-2). In case the Financier is a bank, the account of the Bank should be an internal settlement account and not the current account of the Bank at RBI.

On successful completion of the registration process and on-boarding on the TReDS platform, the system will generate the Financier's Unique Member Code which will be forwarded to registered email-IDs of the Financier.

On successful onboarding under RXIL, an alert / notification shall be sent to the Designated Banker of the Financier.

The Financier is required to submit an Auto Debit mandate to RXIL for onward submission to the respective Financiers Designated Bank for Auto Debit of the payment of Factoring Units factored / financed on the TReDS platform, based on the obligations generated and forwarded by RXIL. If the Financier is a Non-Bank entity, then they are also required to submit an Auto Debit mandate of the Current Account with RBI of the Designated Bank for making payments to RXIL for transactions factored / financed on the TReDS platform.

1.7 Execution of Master Agreement

Master Agreement is an integral part of the registration process and participation on the TReDS platform. Each Applicant will have to execute the relevant Master Agreement with RXIL before they are activated on the TReDS platform.

The Applicant shall execute the Master Agreement by paying applicable stamp duty. The duly stamped and executed Master Agreement will have to be forwarded to RXIL with duly signed application form.

Note that the Master Agreement has to be signed by the person duly authorised in this behalf viz. the Proprietor /Partners /Authorised Directors/ Authorised Officials/ Authorised Trustees/Karta of HUF, duly authorised through declaration / Board Resolution.

Applicable stamp duty has to be borne by the Applicant entity for execution of the Master Agreement.

1.8 Submission of Printed Application and Documents to RXIL

After submission of the online application on the TReDS platform, the same needs to be downloaded and duly signed by the Applicant and the print out of the same shall be submitted to RXIL.

The duly signed application form along with physical copy of KYC documents duly attested by the authorised signatories (self-attested in case of individuals/ sole-proprietorships) and other supporting documents together with duly stamped and executed Master Agreement will have to be delivered to RXIL within 30 days from the date of online submission of application.

The application and all documents enclosed with the application will need to be signed by the Promoter or the Authorised Official of the Applicant viz. Proprietor in case of proprietorship concern, authorised partner(s) in case of Partnership firm, Authorised Official in case of a Company / Authorised Trustee(s) in case of a Trust and Karta in case of HUF. Such authorisation should be duly supported by declaration / Board Resolution/ Resolution etc. as per the format prescribed by RXIL.

1.9 Verification by RXIL

Upon receipt of application and documents, RXIL shall carry out due diligence of the Applicant and shall verify the details of application and documents and thereafter upon RXIL being satisfied, the registration of the Applicant may be approved by RXIL.

After receipt and verification of the above documents by RXIL, a notification shall be sent to the Admin User of the Applicant confirming the in-principle approval/rejection of registration. The notification shall include the details of Registration Fee along with the applicable service tax to be paid by the Applicant, timeline for the payment of Registration Fee (which shall be 15 days from the date of In-principle approval) and the bank account details. The final approval of Registration of the Applicant shall be subject to the receipt of Registration Fee by RXIL.

RXIL (itself or through a third party appointed by it) has the right to inspect / visit the premises / factory / office of the Applicant/ Participant at any time before or after registration as part of audit process mandated by RBI. Sellers and Buyers may be audited by RXIL as per RBI guidelines, as and when it is required / decided by RXIL. During such audits, RXIL (or its authorised representatives) has the right to verify the documents uploaded / submitted by the Applicant / Participant. Each Applicant/ Participant shall provide all co-operation and assistance required by RXIL (or its authorised representatives) for the above purposes.

1.10 Approval of Registration by RXIL

RXIL will approve registration of an Applicant subject to:

- Receipt of duly filled and signed application along with all the relevant documents from the Applicant
- Receipt of confirmation letter (including KYC compliance) from the designated working capital / current account banker (in case of Seller and Buyer)
- Receipt of duly executed and stamped master agreement
- Due diligence of the Applicant including satisfactory compliance to KYC and AML
- Receipt of Registration Fee with applicable service tax

RXIL will approve the Activation of the Admin User subject to submission of authorisation letter / declaration / Board Resolution and satisfactory KYC compliance to RXIL.

1.11 Roles & Responsibilities of Admin Users

The Admin User of the Participant shall be responsible for managing all Participant related maintenance activities i.e., profile information maintenance, management information maintenance, user maintenance, unit maintenance, Client maintenance, bank account maintenance, and also for effecting payment of fees etc. The Admin User shall be responsible for overseeing the overall operations / transactions of the Participant on the TReDS platform.

In the event of change of Admin User at any point of time, it shall be the responsibility of the Participant to inform RXIL promptly in writing. The existing Admin User will be disabled by RXIL only on receipt of such request from the Participant. Similarly, the Participant has to submit a written request to RXIL for change and Activation of new Admin User along with the documents / information as required under the Business Rules of RXIL/ RBI TReDS guidelines.

1.12 Pricing Model

RXIL proposes to have 3 tier pricing model as given below:

- Registration Fees
- Annual Fees
- Transaction Charges

1.12.1 Registration Fee

Registration Fee is a one-time fee for joining the TReDS platform as a participant. It is applicable to all participants i.e. Seller, Buyer and Financiers.

Registration Fee has to be paid by the participant within 15 days of the receipt of the approval notification from RXIL for Activation on the TReDS platform. The participant is also required to pay the applicable service tax along with the Registration Fee. Once the Registration Fee is received and confirmed by RXIL, the user account of Admin User will be activated.

Note:

- RXIL reserves the right to revise the one-time Registration Fee from time to time.
- RXIL will have the discretion to waive Registration Fee for certain participants

1.12.2 Annual Fees

In addition to one time Registration Fee, all registered Participants shall pay an Annual Fee to RXIL on or before 31st March of every year. For the first year of registration, the Participant shall pay the Annual Fee on a pro-rata basis. The applicable service tax shall be paid by the Participant along with the Annual Fee. A notification of the payment due date shall be forwarded to the Participants for payment of the

Annual Fee 30 days in advance and also a weekly reminder notification shall also be forwarded from that date till receipt of payment.

In case of non-payment of the Annual Fee within 1 month of the due date for payment of the same, the Participant may be **DISABLED** from transacting on the TReDS platform.

Note:

- RXIL reserves the right to revise the Annual Fee from time to time.
- RXIL will have the discretion to waive Annual Fee for certain participants

1.12.3 Transaction Charges

Transaction charges are nominal fees levied at the transaction level for financing / factoring of invoices on the TReDS platform.

1.12.3.1 Transaction Charge Structure

RXIL may levy Transaction Charges in following ways:

- Flat Transaction Charges
 - Flat fee per transaction
- Ad Valorem
 - Transaction charges based on the value of the Factored Amount i.e. slab wise based on the invoice amount
- Monthly transaction charges based on volume

1.12.3.2 Applicability of Transaction Charges

The transactions charges may be levied by RXIL on following participants:

- MSME Sellers
- Buyers (Corporates, Govt. Department and PSUs)
- Financiers

Note:

- RXIL will have the discretion to waive transaction charges for certain participants involved in the financed / unfinanced transactions.
- The Transaction Charges will be recovered from participants as may be communicated by RXIL from time to time.
- Revision in transaction charges will be notified to all participants and updated on the RXIL website

1.13 KYC

As TReDS entities are covered under the Payment and Settlement Systems Act, 2007, TReDS entities need to do KYC of the participants registered on the TReDS platform. This includes all categories of participants such as MSME Sellers, Buyers (Corporates, Govt. Depts. and PSUs) and Financiers.

As TReDS is a platform to support financing of trade receivables of MSME Sellers, we envisage large number of Sellers spread across the country (pan India) to join the platform. Some of the micro and small entities may be very small. Doing a comprehensive KYC with due diligence may not be feasible in the initial stages for TReDS.

1.13.1 Interim Approach

As TReDS entities are covered under the Payment and Settlement Systems Act, 2007, TReDS entities need to do KYC of the participants registered on the TReDS platform. This includes all categories of participants.

TReDS entities will do comprehensive KYC of participants registering on the TReDS platform as per guidelines pertaining to KYC applicable at that point in time.

1.13.2 Strategic Approach

Central KYC Registry is a centralized platform for uniform KYC norms facilitating inter-usability of the KYC records across the entire financial sector to avoid multiplicity of registration and data upkeep. The main objective is to reduce the burden of producing KYC documents and getting those verified every time when the customer creates a new relationship with a financial entity.

Currently, TReDS entities have not been notified for accessing the Central KYC for upload, download and update of KYC records. The TReDS platform are working with CERSAI and RBI that will permit RXIL to have access to Central KYC for Upload, Download and Update of KYC records in CKYC. As more banks join CKYC, it is expected to support both individual and non-individual KYC records.

When the CKYC ecosystem develops, TReDS will develop an online connectivity with CKYC for download of KYC records for participants getting registered. This will help TReDS platform to bring down the cost for KYC compliance.

2 Buyer – Seller Link Management

2.1 Scope

This section defines the process followed by the Seller and the Buyer for setting up a link i.e. a relationship between them on the TReDS platform. Such a link on the TReDS platform is called as Buyer-Seller link.

A Buyer-Seller link is required to be created for establishing the trade relationship between the Seller and the Buyer to carry out factoring transactions on the TReDS platform. This link is essentially to be defined by the Seller and/or Buyer to carry out factoring transactions which includes Instrument creation, conversion to Factoring Unit and factoring / financing of the Factoring Unit on the TReDS platform.

2.2 Who can create the link?

Registered Participants viz., a Seller or a Buyer can create / establish a link on the TReDS platform. However, the same needs to be approved by the Counterparty (for the Seller, Buyer is the counterparty and for the Buyer, Seller is the counterparty). As defined in these Business Rules for empanelment under roles and responsibilities of Admin User, only the Admin User of the Seller and/or a Buyer is authorised to create/approve a Buyer-Seller Link.

2.3 How to create the link?

2.3.1 Seller creates the link

Admin User of the Seller may visit the TReDS platform (www.treds.in) and log into his/her account. The Admin User of the Seller shall select its Buyer from the list of the registered Buyers available on the TReDS platform. If the name of the desired Buyer is not available in the list, the Seller may request its Buyer to get registered on the TReDS platform and thereafter the Admin User of the Seller can create a link.

For creation of the link, following other details shall be required to be entered by the Admin User of Seller.

- Buyer Code (Internal code assigned by the Seller to the Buyer for reconciliation purpose)
- Credit Period
- Cap Rate

On entering the above details in the relevant field, the Admin User of the Seller will save the details. On saving the details, the link request shall be automatically forwarded to the Buyer for approval as an email alert to the Admin User of the Buyer.

Once, the link request is forwarded to the Buyer, the Admin User of the Buyer shall log into his/her account and verify the details entered by the Seller. The details entered by Seller which are not relevant to Buyer, such as Buyer Code and Seller's Cap rate, will not be visible to the Buyer.

For approval of the link, following details needs to be entered by the Admin User of the Buyer.

- Seller Code (Internal code assigned by the Buyer to the Seller for reconciliation purpose)
- Cost Bearer (Seller /Buyer)

On entering the above details in the relevant field, the Admin User of the Buyer will mark the Buyer – Seller link as approved. On saving the details, the link request will be automatically approved and an email alert shall be sent to the Admin User of the Seller.

2.3.2 Buyer creates the link

The Admin User of the Buyer may visit the TReDS platform at www.treds.in and log into his/her account. The Admin User of the Buyer needs to select the Seller from the list of the registered Sellers available on the TReDS platform. If the name of the Seller is not available in the list, the Buyer may request its Seller to get registered on the TReDS platform and thereafter the Admin of the Buyer can create a link.

For creation of the link, following other details shall be required to be entered by the Admin User of the Buyer.

- Seller Code (Internal code assigned by the Buyer to the Seller for reconciliation purpose)
- Cost Bearer (Seller /Buyer)

On entering the above details in the relevant field, the Admin User of the Buyer shall save the details. On saving the details, the link request shall be automatically forwarded to the Seller for approval with an email alert to the Admin User of the Seller.

Once, the link request is forwarded to the Seller, the Admin User of the Seller shall log into his/her account and shall verify the details entered by the Buyer. The details entered by Buyer which are not relevant to the Seller, such as Seller Code shall not be visible to the Seller. For approval of the link, following details shall be required to be entered by the Admin User of the Seller (Counterparty)

- Buyer Code (Internal code assigned by the Seller to the Buyer for reconciliation purpose)
- Credit Period
- Cap Rate

On entering the above details in the relevant field, the Admin User of the Seller will mark the Buyer – Seller link as approved. On saving the details, the link request will be automatically approved and an email alert shall be sent to the Admin User of the Buyer.

3 Instrument Management

3.1 Scope

The process of creating the Factoring Unit for the purpose of factoring / financing by the Financiers on the TReDS platform is covered in this section.

Creation of “**Factoring Unit**” on TReDS means the process through which Invoices and such other instruments as may be eligible for factoring on TReDS from time to time representing sale and supply of goods and/or services by Sellers to Corporate & other Buyers, are uploaded and accepted by the counterparty on the TReDS platform and converted into Factoring Units as per the prescribed process for the purpose of factoring by the Financiers.

The creation of Factoring Unit shall be done in the following two steps:

- (i) Creation of Instrument on the TReDS platform
- (ii) Conversion of Instrument to Factoring Unit on /after Counterparty acceptance

The Instrument can be created on the TReDS platform by:

- Seller
- Buyer

(The Participant either Seller or Buyer, creating the Instrument, is hereinafter referred to as an “**Originator**”).

3.2 When to Create an Instrument?

The creation of Instrument is permitted on the TReDS platform only after the delivery of goods or for rendering of the service by Seller to Buyer and acceptance thereof by the Buyer.

3.3 Instrument Creation

The Instrument can be created either by the Seller or the Buyer. However, the same has to be accepted by the Counterparty (i.e., the Buyer or the Seller as the case may be).

The Originator needs to upload the Invoice and enter the Invoice details. The Invoice details can be entered manually or by bulk uploading through pipe delimited text file. The file format shall be notified by RXIL.

3.4 Mandatory Details and Supporting Documents

A valid Invoice is mandatorily required for creating the Instrument on the TReDS platform. The Invoice should at least have the following details:

- Seller(s) name with full address
- Buyer(s) name with full address
- Invoice number
- Invoice date
- Invoice payment terms / Credit Period
- Purchase order reference no.
- Purchase order date
- CST (If any) /VAT/TIN No.
- PAN No.
- Service Tax Registration no. (mandatory In case of service enterprise)
- Clear description of the goods or services
- Quantity of goods/materials or services
- Invoice Amount
- Discount / Adjustment Amount (if any)
- Service Tax Amount (if any)
- VAT / CST / GST Amount (if any)
- Excise Duty Amount (if any)
- Freight / Shipping Charges Amount (if any)
- Net Invoice Amount

3.4.1 Supporting Documents

In addition, the Originator may also upload following supporting documents to provide evidence for supply of goods or services.

- Goods Receipt Note / Work Completion Certificate from Buyer
- Delivery Challan
- Lorry / Freight Receipt

Note: In case of any Adjustment in the Invoice, the relevant credit/debit note may also be uploaded.

3.5 Other Information / Details

Apart from the Invoice details, the Instrument will also carry additional details such as the Cap Rate, identity of the Cost Bearer, Credit Period, Goods/Service Acceptance date and Statutory Due Date (As per the MSMED Act, 2006), Due Date based on Goods/Service Acceptance date and Credit period.

3.5.1 Instrument Value

The instrument value shall be calculated as follows:

$$\text{Instrument Value} = \text{Invoice Amount} + \text{Other Taxes} - \text{Adjustments} - \text{Trade Discount} - \text{TDS (if any)}$$

3.5.2 Cap Rate

The Seller / Buyer shall be permitted to define a Cap Rate (if applicable), which shall be the Maximum Rate acceptable to the Seller / Buyer. The Cap Rate is used when the participant opts for Auto Acceptance of Bids given by Financiers. In such cases, the system will automatically accept / select the lowest Bid Rate, subject to availability of limit and provided the Bid Rate offered by the Financier is below/ equal to the Cap Rate defined by the Seller / Buyer.

3.5.3 Cost Bearer

Each Instrument shall carry the identity of the Participant bearing the cost for factoring / financing the Instrument. This is a system parameter defined by the Buyer at the time of setting up the Seller details in Master Data Maintenance (See Section 6).

The Buyer shall have the right to change the Cost Bearer. The following validations shall be required in different scenarios:

3.5.3.1 Scenario 1 - Seller creates an Instrument

- (iii) The Buyer, at the time of acceptance of the Instrument, can change the Cost Bearer from Seller to Buyer. In such case, no approval / acceptance is required from the Seller. Only an alert/ notification shall be sent to the Seller.
- (iv) At the time of Acceptance of Instrument, if the Buyer changes the Cost Bearer from Buyer to Seller, the same needs to be accepted by the Seller. An alert/ notification regarding this change shall be sent to the Seller.

3.5.3.2 Scenario 2 - Buyer creates an Instrument

- (i) The Buyer, at the time of creation of the Instrument can change the Cost Bearer from Seller to Buyer. In such case, no approval / acceptance is required from the Seller. Only an alert/ notification shall be sent to the Seller.
- (ii) The Buyer, at the time of creation of the Instrument can change the Cost Bearer from Buyer to Seller. The same needs to be accepted by the Seller at the time of Acceptance of Instrument.

3.5.3.3 Cost Bearer Options

TReDS platform will provide an option to indicate if the Seller is bearing the cost or the Buyer is bearing the cost. If the Buyer is bearing the cost, the Financier will have the option to indicate if it intends to collect the interest as part of Leg-1 (near end) or Leg-2 (rear end) at the time of entering the bid for the Factoring Unit.

3.5.4 Due Date

The Due Date of the Instrument is calculated as per the Credit Period (defined at the time of Buyer-Seller link) from the Goods Acceptance Date i.e. (Good Acceptance Date + Credit Period).

In case the above Due Date falls on a bank's clearing holiday in Mumbai, the Due Date will be the preceding Working Day.

3.5.5 Goods Acceptance Date

The 'Goods Acceptance Date' for the purposes of the paragraph above shall be the "the day of acceptance" or, as the case may be, "the day of deemed acceptance" as defined in Section 2(b) of the MSMED Act, 2006.

3.5.6 Statutory Due Date

Statutory Due Date is the absolute date, by which factoring unit of the Seller is required to be factored and settled in favor of Seller as per MSMED Act, 2006.

$$\text{Statutory Due Date} = (\text{Goods Acceptance Date} + 45 \text{ days})$$

In case Statutory Due Date falls on a holiday, then Statutory Due Date shall be the preceding Working Day.

3.6 Operational Users

The Maker and Checker of the participant are Operational Users in the TReDS platform. The Maker is the User of a Participant who is creating the Instrument on the TReDS platform for factoring purpose. The Checker is another User within the same Participant who will review the Instrument created by the Maker. Once the Instrument is submitted by the Maker, it will be automatically forwarded to the Checker, who will approve/return for modification/reject the Instrument.

3.7 Submission to Counterparty

Once the Instrument is approved by the Checker, the same is automatically forwarded to the Counterparty for acceptance.

Note: *If Seller is creating the Instrument then the counterparty is a Buyer. Similarly, if the Buyer is creating the Instrument, the Counterparty is a Seller.*

3.8 Counterparty Acceptance of the Instrument

After the Instrument is created on the TReDS platform by the Originator, the Counterparty will receive an auto generated notification regarding the submission of an Instrument for acceptance. The Counterparty will verify the details available on the Instrument created/uploaded i.e. Seller's name, Invoice Date, Invoice Number, PO date, PO Number, Invoice Amount, Due Date etc., & accept the Instrument on the TReDS platform. The Counterparty shall have the option to accept, return or reject the Instrument. The Counterparty can accept the Instrument manually on the TReDS platform.

In case of any discrepancy, the Counterparty may reject/return the Invoice with reason(s), but will not be able to make any changes. However, the Buyer shall be allowed to change the Cost Bearer. The Originator has the option to make necessary changes and resubmit it for acceptance by the Counterparty within the Acceptance Window (see below) from the resubmission date.

The Counterparty may accept the Instrument within five Working Days of its receipt or as per the time period defined RXIL on the TReDS platform.

The Originator shall have right to opt for Auto Conversion of the Instrument to Factoring Unit immediately after the Counterparty acceptance or Manual Conversion of the Instrument to the Factoring Unit after the Counterparty acceptance, as defined at the time of setting up of Buyer-Seller link.

Once the Instrument is converted to the Factoring Unit, a unique Factoring Unit Number (FUN) shall be generated, which will be used for bidding references. The Buyer's working capital banker(s)/current account banker shall be notified through an email alert about such Factoring Unit on being financed on the TReDS platform.

If the Instrument is not accepted within the window period of five next Working Days as defined on the TReDS platform, the Instrument will not be accepted for creation of Factoring Unit. The corresponding notifications will be sent to respective Seller and the Buyer. The User may in this case re-initiate the Instrument creation process by making necessary changes and following the process of acceptance set out above.

The system will facilitate the filtering/arranging of the Factoring Units based on various parameters viz. Seller, Buyer, amount, date, Due Date, Tenor, Balance Tenor, etc. as per the TReDS Guidelines issued by the RBI.

Note: Once the Instrument is converted into a Factoring Unit and factored on the TReDS platform, it shall be the responsibility of the Buyer to preserve the original Invoices/bills used for creation of Factoring Unit on the TReDS along with all other supporting documents evidencing dispatch and delivery of goods and/or services etc., for a minimum period from the Due Date or such period as may be specified by RXIL from time to time.

3.9 Conversion to Factoring Unit

After acceptance of the Instrument by the Counterparty, the Cost Bearer of the Instrument gets absolute authority to convert the Instruments into Factoring Units and offer it for factoring by the Financers taking part on the TReDS platform.

On acceptance, the Instrument may be automatically / manually converted into Factoring Unit. The Buyer binds itself absolutely and promises to make payment to the Financer of the amount due on the Due Date.

3.10 Validations

The following validations will be performed before the Instrument is created.

- Minimum Balance Tenor of the Instrument (Due Date – Current System Date) should be 15 days at the time of creation of Instrument on the TReDS platform by the Seller/Buyer.
- For Micro and Small Enterprises, there shall be validations in the system that Leg-1 Settlement Date does not exceed the Statutory Due Date. If it exceeds the Statutory Due Date, the Instrument / Factoring Unit shall be rejected. Payment for such Instrument / Factoring Unit shall be settled by the Buyer **outside** the TReDS platform.
- At the time of creating a new Instrument, the system will validate if the invoice has been already created or financed on the TReDS platform. The idea is to prevent double financing of the same invoice.

4 Auction Management

4.1 Scope

This section defines the process of auction of the Factoring Units created on the TReDS platform. Upon the acceptance of the Instrument by the Counterparty, the Instrument is ready to be converted into a Factoring Unit. The Factoring Unit can be automatically created or the Cost Bearer can create it manually. At the time of creating the Factoring Unit manually, the User has the option to schedule the auction by defining the Auction Start Date and time and Auction End Date and time (system driven parameters). In case the Factoring Unit is auto created, it will immediately go for Auction with system generated Auction Start Date and Auction End Date. The system commences the Auction of the Factoring Unit on the scheduled Auction Start Date and the Auction is in progress until the scheduled Auction End Date.

4.2 Risk Management

Risk Management is an essential part of any Financier's ability to bid in auctions. It involves exposure to the Buyers as well as operational risk while entering bids. Factoring through TReDS platform will be without recourse to the Sellers. In order to manage risk, various features have been proposed as given below.

4.2.1 Bid Range (Big Finger)

When Financiers make a bid in auctions they will need to enter the Bid Rate. As the number of Invoices is expected to be very high, there is a high chance that User who enters the Bid Rate may enter an incorrect Bid Rate and this may have an impact and may result in unwarranted exposure for the Financier. In order to prevent this, it is proposed to have 2 levels of checks when the User enters the Bid Rate. Financiers may opt for any of the following:

4.2.1.1 Level 1 - Overall Bid Range

The Financier will be able to define a Bid Rate range i.e., Min Bid Rate and Max Bid Rate which will be applicable across all Users and across all Buyers associated with the Financier. All Bids entered by the Financier should be within this Min Bid Rate and Max Bid Rate range.

4.2.1.2 Level 2 – Buyer Level Bid Range

In this case, the Financier will be able to define the Bid Rate range i.e., the Min Bid Rate and the Max Bid Rate specific for each Buyer.

- All bids entered should be within the defined overall Min Bid Rate and Max Bid Rate
- It is applicable for all Users who are permitted to enter Bid Rate for the specified Buyer

4.2.1.3 Base Rate – Min Bid Rate

The Financier will be able to define the Min Bid Rate that is linked to the Base Rate of the Bank and has the option to specify the spread (which may be based on their cost of funds). An illustration is provided below:

| Base Rate | Min Spread (bps) | Max Spread (bps) | Min Bid Rate | Max Bid Rate |
|-----------|------------------|------------------|--------------|--------------|
| 9.00% | 50 bps | 100 bps | 9.50% | 10.00% |

4.2.2 Overall TReDS Level Limit

The Financier will be able to define an overall TReDS Exposure Limit (aggregation of all exposure limits fixed for different Buyers) on the TReDS platform. If the limit is utilized, the Participant who is bearing the cost will not be able to accept any bid on the TReDS platform.

- The limit is defined at the overall level for the Financier
- It is applicable across all Users within the Financier
- It is applicable against all Buyers against whom the limits have been defined by the Financiers
- It is applicable against all Sellers associated with the respective Buyer

Once the factored unit is settled under Leg-2, the overall utilized limit will be reset along with other sub-limits viz., User wise, Buyer wise and Seller wise accordingly.

4.2.3 Buyer's Limit

The Financiers will be allowed to define limits against individual Buyers registered and available on the TReDS platform.

- A Financier will be able to define the limits for each Buyer
- The limit is applicable for all Users of the Financier bidding in auctions Invoices for the specified Buyer
- Once the factored unit is settled (Leg-2 Settled), the overall utilized limit will be reset accordingly
- At no point in time, the Financier can exceed the overall limit defined by the Financier for the TReDS platform.
- The limit utilization will be calculated at the time of Bid Acceptance

4.2.4 Seller Limit within Buyers Limit

The Financiers will be allowed to define sub-limits against individual Seller within the overall Buyer level limit, registered and associated with the specified Buyer on the TReDS platform.

- A Financier will be able to define the sub-limits for each Seller within a Buyer, if required

- The bid of the Financier will be accepted only if the bid is the lowest bid and only if the Buyer limit as well as Seller limit within the Buyer is available
- Once the factored unit is settled (Leg-2 Settled), the overall utilized limit will be reset accordingly
- At no point in time, the Financier can exceed the overall limit defined by the Financier for the TReDS platform.
- The limit utilization will be calculated at the time of Bid Acceptance

4.2.5 User Level Limit

The Financier has the option to define the limits at the User level.

4.2.6 Limit Utilisation

4.2.6.1 Bid Acceptance Stage

The limit will be utilized only when the bid is accepted by the Seller or by the Buyer as the case may be:

- The limit will be reduced on settlement under Leg-1 and will be reset on settlement under Leg-2
- If a Financier's limit is utilized to the extent of 100% set for the Buyer, the Seller or Buyer attempting to accept the bid from the same Financier will be displayed an error message that the Financier does not have sufficient limit available for Bid Acceptance

4.3 Auction Process

In the Auction dashboard, the details of Factoring Units will be visible to all the Participants, i.e., the Seller, the Buyer and the Financiers. The auction is valid from the Auction Start Date to the Auction End Date as defined at the time of creation of the Factoring Unit.

4.3.1 System Open Timing

Any Financier would be able to enter bids for the Factoring Units within the time window defined by RXIL.

4.3.2 Bid Rate

Multiple Financiers can now bid for the auction process. The Bid Rate is the rate that the Financier is willing to offer for factoring the Factoring Unit.

4.3.3 Financiers Role in Bidding

A Financier will be able to participate in the Auction only for those Buyers where they have defined limits on the TReDS platform.

- Once a User of the Financier enters the bid for a particular Factoring Unit, any other User within the same Financier will not be allowed to enter the bid for the same Factoring Unit in the auction and a message regarding this will appear that a bid has already been entered by another User of the Financier.
- In case Buyer is bearing the interest cost, the Financier can indicate if it intends to collect interest as part of Leg-1 settlement (near end) or as part of Leg-2 settlement (rear end).
- The Financiers will be free to determine the time validity of their bid. They can enter bids which are valid only for that day or they can enter bids which are valid until a '**Good Till Date**' (GTD). The GTD bid will be valid until the date specified by the Financier. The Financier will not be allowed to enter a GTD Bid beyond the Auction End Date.
- The Financier is allowed to revise or withdraw the bid prior to its acceptance by the Seller/Buyer as the case may be.

The Financier can define User level limits and only those Users whose unutilized limits are available will be eligible for Bid Acceptance by Seller/Buyer as the case may be. For others the system will display an error message.

Note: If the User does not specify any GTD date for the Bid, the Bid will be valid only for the current date.

4.3.4 Who sees what?

The Seller and the Buyer will not be able to see the name of the Financier until the bid is accepted by the Seller or the Buyer, as the case may be. Other Financiers bidding for the auction will be able to see the other competitive bids. However, the name of other Financiers will not be displayed.

A bid entered by the Financier, unless modified before acceptance of the bid, will be valid until Auction End Date or the GTD date, whichever is earlier.

4.3.5 Who accepts the bid?

Any Participant viz. Seller or Buyer bearing the cost of factoring has the right to accept the bids. The Seller / Buyer will not be able to accept the bid, if at the time of acceptance of the bid, the Financier does not have enough unutilized limit against the limit defined by the Financiers, even though the bid may happen to be the best bid.

4.3.6 Withdrawal of the Factoring Unit from Auction

The Participant creating the Factoring Unit has the right to withdraw the Factoring Unit from the auction. The Factoring Unit can be withdrawn any time before acceptance of the bid. If the Participant withdraws the Factoring Unit after receipt of bids, then all bids received for that Factoring Unit will be cancelled. In such cases, corresponding Financiers shall be notified regarding cancellation of the auction.

Note: RXIL reserves the right to suspend any auction at any point of time, if found necessary in the public interest.

4.4 Bid Acceptance

There are two ways the Seller or Buyer may accept the bids received from Financiers for the ongoing auctions.

4.4.1 Auto Acceptance

At the time of creating an Instrument, the default value set for Auto Acceptance is “Yes” / “Enabled”. The criteria defined for auto acceptance either by the Seller or by the Buyer (as the case may be) is given below:

- Cap rate needs to be defined (as specified in the Instruments Management section)
- Auto Acceptance has been set to “Enabled” at the Instrument level
- The bid of the Financier shall be chosen based on the price-time priority of bids received, i.e. if two Financiers have entered same Bid Rate, the Financier whose bid came first will be accepted over the other Financiers bid i.e. it is based on the time priority
- In case of 100% financing / factoring of Factoring Unit, only the lowest Bid Rate will be considered for auto acceptance, provided limits are available with the Financier for the specified Buyer
- The Cost Bearer information for the auction will be visible to all Financiers
- Settlement of the accepted bid shall be done on T+1 basis.

4.4.2 Manual Acceptance

The Cost Bearer has the option to manually select the bid for a specified Factoring Unit. In manual selection of bid, the Cost Bearer may select any bid available in the auction window for the Factoring Unit. The Cost Bearer has the right to select any bid and the selected bid may not be the best bid.

5 Settlement Management

5.1 Scope

Settlement management is a process to generate the Obligations and effect actual transfer of funds for Leg-1 (Financier to make payment to Seller) and Leg-2 (Buyer to make payment to Financier) for all Factoring Units where bids have been accepted by Seller/Buyer.

Since RXIL is not a bank, RXIL will be using the services of a Sponsor Bank to effect actual transfer of funds between Participants.

5.2 Market Timings

| | |
|-----------------------|---|
| Market Type | Discounting |
| Market Open Time | 9:00 AM IST |
| Market Close Time | 9:00 PM IST |
| First Leg Cutoff Time | All bids accepted until 3:00 PM IST shall be included in Leg-1 Obligation and shall be settled on T+1. Any bid accepted after Cut-Off time (3:00 PM IST) shall be settled on T+2 |
| Settlement day | T+1 for bids accepted until 3:00 PM IST |

Note: The obligation generation process will follow 5 days a week calendar and would follow Maharashtra state holiday calendar under the Negotiable Instruments Act, 1881.

5.3 Sponsor Bank Mandate – Auto Debit

The Financier and the Buyer is required to provide an Auto Debit mandate to RXIL to ensure smooth settlement of transactions on the TReDS platform. The mandates as received from participants shall be forwarded to the Sponsor Bank for further processing of the mandate including its registration with NPCI and the Designated Bankers of Buyers and Financier respectively. The mandate needs be provided at the time of registration or at a later stage when the Designated Banker or bank account is sought to be changed by the Buyer or the Financier.

| | | | |
|---|-----------------------|---|-------------------------------------|
| UMRN | | Date | |
| Tick (✓) | Sponsor Bank Code | Utility Code | |
| CREATE | I/We hereby authorize | | Name of Utility/Biller/Bank/Company |
| MODIFY | | | to debit (tick✓) |
| CANCEL | | | SB /CA /CC /SB-NRE /SB-NRO /Other |
| Bank a/c number | | | |
| with Bank | | Name of customers bank | IFSC |
| | | | or MICR |
| an amount of Rupees | | | |
| FREQUENCY | | DEBIT TYPE | |
| <input type="checkbox"/> Mthly <input type="checkbox"/> Qtly <input type="checkbox"/> H-Yrly <input type="checkbox"/> Yrly <input type="checkbox"/> As & when presented | | <input type="checkbox"/> Fixed Amount <input type="checkbox"/> Maximum Amount | |
| Reference 1 | | Phone No. | |
| Reference 2 | | Email ID | |
| PERIOD | | | |
| From | | | |
| To | | | |
| Or <input type="checkbox"/> Until Cancelled | | | |
| Signature Primary Account holder | | Signature of Account holder | |
| 1. Name as in bank records | | 2. Name as in bank records | |
| 3. Name as in bank records | | | |
| This is to confirm that the declaration has been carefully read, understood & made by me/us | | | |

In the event that an auto debit mandate is not successfully processed, the Participants shall not be allowed to undertake any transaction on the TReDS platform, till such time that such mandate has been duly processed.

5.4 Settlement Obligation

5.4.1 Interest / Financing Cost Calculation

5.4.1.1 Seller Bearing Cost (Leg-1)

Interest / Financing Cost is the cost of funding the receivables i.e., interest to be borne by the Seller and collected upfront shall be computed as follows:

$$\text{Financing Cost} = \frac{\text{Factored Unit Cost}}{\left(100 + \frac{\text{Bid rate}}{365} * \text{Balance Tenor}\right)} * \frac{\text{Bid rate}}{365} * \text{Balance Tenor}$$

Note: The resultant shall be rounded up the nearest Rupees

5.4.1.2 Buyer Bearing Cost (Leg-1)

Interest / Financing Cost is the cost of funding the receivables i.e., interest to be borne by the Buyer and collected upfront shall be computed as follows:

$$\text{Financing Cost} = \frac{\text{Factoring Unit Cost}}{\left(100 + \frac{\text{Bid rate}}{365} * \text{Balance Tenor}\right)} * \frac{\text{Bid rate}}{365} * \text{Balance Tenor}$$

Note: The resultant shall be rounded up the nearest Rupees

5.4.1.3 Buyer Bearing Cost (Leg-2)

Interest / Financing Cost is the cost of funding the receivables i.e., interest to be borne by the Buyer and collected rearend shall be computed as follows:

$$\text{Financing Cost} = \frac{\text{Factoring Unit Cost}}{100} * \frac{\text{Bid rate}}{365} * \text{Balance Tenor}$$

Note: The resultant shall be rounded up the nearest Rupees

5.4.2 Scenario 1 – Interest borne by Buyer and Leg-1 Collection (UPFRONT)

| | |
|-----------------------|------------------------------|
| Finance Amount | 1,00,000 |
| Financier Txn Charges | 100 UPFRONT |
| Interest amount | 500 (Borne by Buyer UPFRONT) |

| | |
|--------------------|-------------|
| Buyer Txn Charges | 150 UPFRONT |
| Seller Txn Charges | 200 UPFRONT |

The debits and credits in the settlement file will be as follows:

5.4.2.1 Leg-1 transactions

| REFERENCE NUMBER | ACCOUNT | Debit / Credit | AMOUNT | EXPLANATION |
|------------------|------------|----------------|--------|---------------------|
| FU001 | Financier1 | Debit | 99,600 | (-1,00,000-100+500) |
| FU001 | Buyer1 | Debit | 650 | (-500-150) |
| FU001 | Seller1 | Credit | 99,800 | (1,00,000-200) |
| FU001 | TReDS | Credit | 450 | (100+150+200) |

| Total | Amount |
|--------------|--------|
| Total Debit | 100250 |
| Total Credit | 100250 |

5.4.2.2 Leg-2 transactions

| REFERENCE NUMBER | ACCOUNT | Debit / Credit | AMOUNT | EXPLANATION |
|------------------|------------|----------------|-------------|--------------------------|
| FU001 | Buyer1 | Debit | DR 1,00,000 | (Repayment of Principal) |
| FU001 | Financier1 | Credit | CR 1,00,000 | (Principal Amount) |

| Total | Amount |
|--------------|--------|
| Total Debit | 100000 |
| Total Credit | 100000 |

5.4.3 Scenario 2 – Interest borne by Buyer and Leg-2 Collection (REAREND)

| | |
|-----------------------|------------------------------|
| Finance Amount | 1,00,000 |
| Financier Txn Charges | 100 UPFRONT |
| Interest amount | 500 (Borne by Buyer REAREND) |
| Buyer Txn Charges | 150 UPFRONT |
| Seller Txn Charges | 200 UPFRONT |

The debits and credits in the settlement file will be as follows:

5.4.3.1 Leg-1 transactions

| REFERENCE NUMBER | ACCOUNT | Debit / Credit | AMOUNT | EXPLANATION |
|------------------|------------|----------------|---------|-----------------|
| FU002 | Financier2 | Debit | 100,100 | (-1,00,000-100) |
| FU002 | Buyer2 | Debit | 150 | (-150) |
| FU002 | Seller2 | Credit | 99,800 | (1,00,000-200) |
| FU002 | TReDS | Credit | 450 | (100+150+200) |

| Total | Amount |
|-------------|--------|
| Total Debit | 100250 |

| Total | Amount |
|--------------|--------|
| Total Credit | 100250 |

5.4.3.2 Leg-2 transactions

| REFERENCE NUMBER | ACCOUNT | Debit / Credit | AMOUNT | EXPLANATION |
|------------------|------------|----------------|-------------|-------------------------------|
| FU002 | Buyer2 | Debit | DR 1,00,500 | (Principal Amount & Interest) |
| FU002 | Financier2 | Credit | CR 1,00,500 | (Principal Amount & Interest) |

| Total | Amount |
|--------------|--------|
| Total Debit | 100500 |
| Total Credit | 100500 |

5.4.4 Scenario 3 – Interest borne by Seller and Leg-1 Collection (UPFRONT)

| | |
|-----------------------|-------------------------------|
| Finance Amount | 1,00,000 |
| Financier Txn Charges | 100 UPFRONT |
| Interest amount | 500 (Borne by Seller UPFRONT) |
| Buyer Txn Charges | 150 UPFRONT |
| Seller Txn Charges | 200 UPFRONT |

The debits and credits in the settlement file will be as follows:

5.4.4.1 Leg-1 transactions

| REFERENCE NUMBER | ACCOUNT | Debit / Credit | AMOUNT | EXPLANATION |
|------------------|------------|----------------|--------|---------------------|
| FU003 | Financier3 | Debit | 99,600 | (-1,00,000-100+500) |
| FU003 | Buyer3 | Debit | 150 | (-150) |
| FU003 | Seller3 | Credit | 99,300 | (1,00,000-200-500) |
| FU003 | TReDS | Credit | 450 | (100+150+200) |

| Total | Amount |
|--------------|--------|
| Total Debit | 99750 |
| Total Credit | 99750 |

5.4.4.2 Leg-2 transactions

| REFERENCE NUMBER | ACCOUNT | Debit / Credit | AMOUNT | EXPLANATION |
|------------------|------------|----------------|-------------|--------------------|
| FU003 | Buyer3 | Debit | DR 1,00,000 | (Principal Amount) |
| FU003 | Financier3 | Credit | CR 1,00,000 | (Principal Amount) |

| Total | Amount |
|--------------|--------|
| Total Debit | 100000 |
| Total Credit | 100000 |

5.4.5 Scenario 4 – Interest borne by Seller and Leg-1 Collection (UPFRONT)

| | |
|-----------------------|-------------------------------|
| Finance Amount | 1,00,000 |
| Financier Txn Charges | 100 UPFRONT |
| Interest amount | 500 (Borne by Seller UPFRONT) |
| Buyer Txn Charges | 150 REAREND |
| Seller Txn Charges | 200 UPFRONT |

The debits and credits in the settlement file will be as follows:

5.4.5.1 Leg-1 transactions

| REFERENCE NUMBER | ACCOUNT | Debit / Credit | AMOUNT | EXPLANATION |
|------------------|------------|----------------|--------|---------------------|
| FU004 | Financier4 | Debit | 99,600 | (-1,00,000-100+500) |
| FU004 | Buyer4 | - | - | - |
| FU004 | Seller4 | Credit | 99,300 | (1,00,000-200-500) |
| FU004 | TReDS | Credit | 300 | (100+200) |

| Total | Amount |
|--------------|--------|
| Total Debit | 99600 |
| Total Credit | 99600 |

5.4.5.2 Leg-2 transactions

| REFERENCE NUMBER | ACCOUNT | Debit / Credit | AMOUNT | EXPLANATION |
|------------------|------------|----------------|----------|---------------------------------|
| FU004 | Buyer4 | Debit | 1,00,150 | (Principal Amount + Txn Charge) |
| FU004 | Financier4 | Credit | 1,00,150 | (Principal Amount + Txn Charge) |

| Total | Amount |
|--------------|--------|
| Total Debit | 100150 |
| Total Credit | 100150 |

5.5 Interim Settlement Process

In the interim settlement process, the payment will have to be collected from multiple sources (Financiers' & Buyers in first leg and Buyers' in second leg) and credit to different entities (Sellers' in first leg and Financiers' in second leg). Hence, the two sets of transactions need to be processed in two stages –

- Stage 1 where funds from the payers' will be collected and pooled into the clearing account of TReDS and
- Stage 2 where the funds will be paid out from the clearing account of TReDS to receivers' account. While transactions relating to stage 1 will be completed through the NACH Debit system, transactions for Stage 2 will be processed through NACH Credit system.

5.5.1 NACH Debit Mechanism

| Id. | Activity | Day | Timing |
|-----|--|-----|-----------------------|
| 1 | Cutoff time for TReDS Settlement | T | 3 PM |
| 2 | TReDS Platform generates the settlement file for stage 1 (NACH Debit File) | T | 3:15 PM |
| 3 | TReDS sends the NACH Debit File to the Sponsor Bank | T | 5:00 PM |
| 4 | Sponsor Bank processes / validates the NACH Debit | T | 5:00 PM |
| 5 | Sponsor Bank presents the Debit File to NACH in the NACH Debit presentation session | T+1 | 7:00 AM – 9:00 AM |
| 6 | NACH will generate the inter-bank settlement process and submits the file to RBI for settlement in the current account of the respective banks - debit to payees designated bank accounts and credit to TReDS sponsor bank | T+1 | 7:00 AM – 9:00 AM |
| 7 | <u>Debit Return File Clearing Window</u> Destination Banks to upload returns for any debit failures | T+1 | 11:00 AM – 12:00 NOON |
| 8 | Consolidated Debit File Return given by Sponsor Bank to TReDS | T+1 | 11:00 AM – 12:00 NOON |
| 9 | For every NACH presentation session, there will be a corresponding return session. Hence, after the return session is complete, Sponsor bank gives clear credit to TReDS Clg & Settlement Account held with it | T+1 | 12:00 PM – 12:30 PM |
| 10 | <u>Exception Handling Mechanism – Debit Fails (Leg-1)</u> <ul style="list-style-type: none"> Leg-1 transaction is marked as FAILED Leg-2 obligation will be CANCELLED | T+1 | 12:30 PM |

5.5.2 NACH Credit Mechanism

| Id. | Activity | Day | Timing |
|-----|---|-----|--------------------|
| 11 | Based on the Debit Return Files, TReDS will repair the NACH Credit File after removing the failed transactions | T+1 | 12:30 PM – 1:30 PM |
| 12 | TReDS will send the revised NACH Credit File to the Sponsor Bank | T+1 | 1:30 PM – 2:00 PM |
| 13 | Subsequently, the sponsor bank will submit the NACH Credit file in the NACH Credit presentation session (NACH Credit Presentation Session to be available until 3:00 PM) | T+1 | 2:00 PM – 2:30 PM |
| 14 | NACH will generate the inter-bank settlement process and submits the file to RBI for settlement in the current account of the respective banks - debit to TReDS sponsor bank and credit to designated banks' accounts of Sellers | T+1 | 3:00 PM - 5:00 PM |
| 15 | <u>Credit Return File Clearing Window</u> Destination Banks to upload returns for any credit failures | T+1 | 3:00 PM – 5:00 PM |
| 16 | Consolidated Credit File Return given by Sponsor Bank to TReDS | T+1 | 3:00 PM – 5:00 PM |
| 17 | After completion of the return clearing for NACH Credit, then the respective banks will give clear credit to the receivers bank accounts held with them (based on the transaction details sent to the respective banks for each settlement by NACH) | T+1 | 5:15 PM |
| 18 | <u>Exception Handling Mechanism – Credit Fails (Leg-1)</u> | T+1 | 5:15 PM – 5:30 PM |

| Id. | Activity | Day | Timing |
|-----|---|-----|-------------------|
| | <p>This will be on rare occasions due to bank account being frozen or incorrect account number entered for the receiver (Seller – Leg-1 and Financier – Leg-2)</p> <p>To eliminate this possibility, TReDS is planning to generate one low value debit / credit transaction to validate if the bank account of the Seller is active / valid.</p> | | |
| 19 | Based on the Credit Return Files, TReDS will update the transaction status and mark the transaction as Cancelled | T+1 | 5:15 PM – 5:30 PM |
| 20 | <p><u>NACH Credit Return File Received PRE NEFT Cutoff time</u></p> <p><u>Credit Fails – Refund to the Original Participants whose account was debited</u></p> <p>TReDS will generate NEFT transaction for crediting the account of the participant whose account was debited as part of NACH Debit File for the specified transaction.</p> <p><i>Note: TReDS will be tracking the Debit and Credit at the transaction level. Hence, it has the information regarding the participants and their account from where the money was originally debited for the specified transaction.</i></p> | T+1 | 5:30 PM – 6:15 PM |
| 21 | TReDS will send the NEFT file through its Sponsor Bank for crediting the participants account to refund the funds to the original participants whose account was debited (using transaction id as the link) | T+1 | 6:15 PM |

Notes:

- The Financier (Leg-1) and the Buyer (Leg-2) needs to ensure that sufficient funds are available in the designated bank accounts registered with TReDS between 7:00 AM to 11:00 AM.
- If the Financier is a current account holder with RBI, then there is no need to credit any other customer account further after the credit has been given to the settlement account with RBI. Based on the transaction details sent by NACH, the Financier can record and reconcile the settlement entry in the account with the TReDS transactions.
- TReDS may initiate 1 debit and credit transaction to validate if the Sellers / Financiers account is valid or not as part of the process before the participant can initiate transactions on the TReDS platform
- Credit Fail exceptions may be rare as the credit will happen to accounts of the Financiers who are banks and NBFC Factors

5.6 Final TReDS Settlement Process – Single NACH Debit and Credit File

5.6.1 Assumptions

1. Separate TReDS Settlement cycle will be introduced by NPCI
2. NPCI will communicate the timings for new TReDS Settlement cycle to all banks

3. NPCI will run the TReDS Settlement cycle as follows:
 - a. Debit session will be run first
 - b. Followed by Credit1 session to credit Seller (Leg1) and
 - c. Credit2 session to credit TReDS for transaction charges and for reversals of failed credit transactions
4. Scenarios that will be handled by NPCI
 - a. One debit and one credit
 - b. One debit and multiple credits
 - c. Multiple debits and one credit
 - d. Multiple debits and multiple credits (maximum 2 credits – one to each participant and another to TReDS)
5. Each batch will have a unique Factoring Unit Id. Each TReDS entity should have unique Factoring Unit Id and should be distinct from other TReDS entities.
6. NPCI will share the formats of the MIS reports
7. NPCI will publish the list of banks eligible to participate in the NACH on regular basis

5.6.2 Settlement Process

1. There will be multiple batches of transactions in a single NACH file.
2. Each batch will have a maximum of two debits and two credits.
3. All these debits and credits in a given batch will have a common reference number (e.g. Factoring Unit Id).
4. The total of debits and total of credits in a batch will always tally.
5. In case of reverse factoring, if there are two or more sellers in a Factoring Unit, the Factoring Unit needs to be split into multiple batches so that each batch has only one seller. The common reference number needs to be taken care by suitably modifying FU Number (e.g. FU Number_1, FU Number_2.....).
6. In case of any debit or seller/financier credit failing in a batch, all the debits and credits in that batch will be reversed.
 - a. Exception:
 - i. In case of TReDS Credit leg failure, the batch will not be reversed.
 - ii. TReDS platforms to handle credit leg failure to their own account.
 - iii. In the scenario of one debit and multiple credits where one or more credit leg failure then only the credits failed will be reversed to the debit account, not the entire batch. The successful credit transactions will be left untouched.
7. There can be multiple records for debits & credits pertaining to a given party (e.g. Financier) in the File. However, in a given batch each party is present only once.
8. In case the Financier is a bank, the account of the Bank should be an internal settlement account and not the current account of the Bank at RBI.
9. The total of the debits and the total of the credits in the file should tally.
10. Failures
 - a. Debit Failure
 1. If there is no response from the destination bank for a debit transactions such no-response will be deemed to be failed debit transactions.
 2. System will follow the process similar to the case of a returned debit transactions.
 - b. Credit Failure

1. If there is no response from the destination bank for a credit transactions such no-response will be deemed to be successful credit transactions.
 2. Such deemed accepted transactions will not be acted upon by TReDS.
 3. If there is any exception (return) in such deemed accepted records the respective TReDS entities should handle this outside the system.
11. The new file format will be published by NPCI.
 12. The new product type will be published by NPCI.
 13. The NACH File for T+1 settlement will be submitted to NPCI by Sponsor Bank on T.
 14. The file will be processed by NPCI on settlement day (value dated).

5.7 Failure of Settlement

The default needs to be processed from the perspective of Auto Debit Failure or Credit Failure.

5.7.1 Leg-1 Debit Failure

- Leg-1 transaction is marked as FAILED
- Leg-2 obligation will be CANCELLED
- Resubmission for Auction (if permissible based on the balance tenor available for the Factoring Unit)

5.7.2 Leg-2 Debit Failure

- A Buyer may put in a request to extend the due date within a maximum of say 3 working days from the due date.
- The request can be for extension of due date by a maximum of say 30 days.
- This request will be passed on the Financier who will revert within say 2 working days conveying his willingness or otherwise to extend the due date.
- If the Financier agrees to extend the due date, revised interest rate and penalty, if any, payable by the Buyer will be advised.
- If the Buyer accepts Financier's decision, the new due date will be advised to the Buyer, Buyer's bank and Financier along with the revised amount payable by the Buyer.
- The entire cycle from above should be completed within a maximum of say 5 working days from the original due date.
- Settlement instructions will be generated on the new date.
- No further request for extension of due date will be entertained.

5.8 Settlement Not Guaranteed

The settlement under Leg-1 and Leg-2 shall not be a guaranteed settlement by RXIL and the same will depend on the successful settlement of the obligations by the paying party. RXIL shall not be responsible for any failure of the settlement under Leg-1 and Leg-2 and for any dispute between the respective Obligor and Beneficiary.

If the Leg-1 obligatory party fails to settle their settlement Obligation, then the entire transaction for factoring fails and no Leg-2 Obligations will be generated by the system. If the Leg-1 Obligor i.e., the Financier settles the Leg-1 and then on the Leg-2 Due Date, the Buyer fails to make the payment to the

Financier, the transaction now needs to be settled outside the TReDS platform. The Buyer now has the Obligation to the Financier i.e. the Financier bears the counterparty risk involved in factoring transaction as per the TReDS guidelines

5.9 CERSAI

As per the provisions for registration of transactions contained in the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (54 of 2002) and the rules made thereunder shall, mutatis mutandis, apply to the record of assignment of receivables in favour of a factor in the Central Register with the Central Registry. Subsequent to the issue of TReDS guidelines, "Amendment Rules, 2016" notified on 22.1.2016 require charge on book debts and receivables to be registered with CERSAI.

After successful settlement of the Leg-1 Obligation between the Financier and the Seller, the receivable of the Seller financed/factored on the on the TReDS platform needs to be registered with CERSAI for assignment of receivables in favour of the Financier as per the Factoring Regulation Act, 2011 and the Factoring Rules issued. The Obligation of the Buyer to make payment against the Factored Unit will be towards the respective Financier.

As per RBI TReDS guideline's, RXIL as intermediary of the Financier, shall file for the purposes of registration, the particulars of each Assignment in favour of the respective Financier arising from the Factored unit with the CERSAI within a period of thirty days from the date of such Assignment. The date of Assignment for this purpose will be the date of settlement of Leg-1 Obligation by the Financier to the Seller. Applicable registration charges including taxes if any, with CERSAI shall be paid by the respective Financier.

Similarly, TReDS as an intermediary will also register Satisfaction of Registration when Leg-2 of the transactions gets settled on the TReDS platform.

5.9.1 Registration with CERSAI – Interim Approach (Option 1)

As per the Factoring Act, 2011 rules notified through Gazetted Notification on April 2, 2012, only Financiers are permitted to register the trade receivables financed by financiers for assignment of receivables with CERSAI.

Under this option, the primary responsibility of registering the invoices financed on the TReDS platform with CERSAI will be with Financiers. The Financiers will continue to register the financed / factored invoices with CERSAI on whole turnover basis, the way they are currently doing it for factoring outside the TReDS platform. Only financing happens on the TReDS platform and the Financier will register the invoices with CERSAI. Similarly, the Financier will also register the Satisfaction of Registration for assignment of receivables with CERSAI on the settlement of Leg-2 of the transaction.

If the Financiers give the authority to RXIL to register the invoices on their behalf the financed invoices will be registered by RXIL. The authorisation to register the financed / factored invoices with CERSAI on behalf of the Financier will be covered in the Master Agreement with the Financier. Similarly, TReDS will also register the Satisfaction of Registration for assignment of receivables with CERSAI on behalf of the Financier on the settlement of Leg-2 of the transaction.

5.9.2 Registration with CERSAI – Tactical Approach (Option 2)

Under this option, TReDS will work with CERSAI to develop an automated or manual bulk invoice upload mechanism for registration of invoices financed / factored on the TReDS platform either on whole turnover basis or on invoice basis. As and when the bulk upload functionality is made available by CERSAI, TReDS will develop such a bulk upload functionality to be used for registration of invoices and satisfaction of registration on behalf of the Financiers.

In this case the Financiers will authorise TReDS to register the invoices with CERSAI on their behalf. The fees for registration of financed invoices by RXIL with CERSAI on behalf of the Financier will be recovered from the Financier. Similarly, TReDS will also register the Satisfaction of Registration for assignment of receivables with CERSAI on behalf of the Financier on the settlement of Leg-2 of the transaction.

The authorisation to register the financed / factored invoices with CERSAI on behalf of the Financier will be covered in the Master Agreement with the Financier.

5.9.3 Registration with CERSAI – Strategic Approach

As per the strategic approach proposed for registration of invoices with CERSAI, TReDS intends to develop a mechanism wherein invoices financed / factored on the TReDS platform will be registered by TReDS authorised users on behalf of the Financiers. Similarly, the Financier will also register the Satisfaction of Registration for assignment of receivables with CERSAI on the settlement of Leg-2 of the transaction.

Apart from registration of invoices with CERSAI, the strategic approach will permit TReDS to do DeDupe check against the registered invoices in an automated way.

The authorisation to register the financed / factored invoices with CERSAI on behalf of the Financier will be covered in the Master Agreement with the Financier.

6 Master Data Maintenance

6.1 Scope

This section details the process for the Participants empaneled on the TReDS to change / modify / update Participant details (Master Data) with respect to operational and functional parameters.

6.2 Who can manage Master Maintenance

Only the Admin User of the respective Participant is authorised to manage the master data.

6.3 Change Management Matrix

The matrix showing the details of the master data that is possible to be updated by different categories of Participants such as Sellers, Buyers and Financiers under Master Data Maintenance is summarized in the below table:

| Master maintenance activity | Sellers | Buyers | Financiers | Exchange Approval Required? | Supporting Documents |
|----------------------------------|---------|--------|------------|-----------------------------|----------------------|
| User Management | ✓ | ✓ | ✓ | x | x |
| Unit/Location/ Branch Management | ✓ | ✓ | ✓ | x | x |
| Client Management | ✓ | ✓ | ✓ | x | x |
| Bank Management | ✓ | ✓ | ✓ | ✓ | ✓ |
| Profile Update | ✓ | ✓ | ✓ | ✓ | ✓ |
| Escalation E-mail ID | ✓ | ✓ | ✓ | ✓ | ✓ |
| Constitution Change | ✓ | ✓ | ✓ | ✓ | ✓ |
| MSME Status | ✓ | x | x | ✓ | ✓ |
| Admin User Change | ✓ | ✓ | ✓ | ✓ | ✓ |
| Authorised Official Change | ✓ | ✓ | ✓ | ✓ | ✓ |
| Limits | - | - | ✓ | x | x |
| Cap Rate | ✓ | ✓ | x | x | x |

6.4 Master Data Management – Seller

6.4.1 User Management

User management includes creating the Operational Users viz.,

- Maker
- Checker

Admin User has the right to assign roles to different Users within the Seller.

Operational Users are authorised to carry out factoring transactions on the TReDS platform and includes activities such as Instrument Creation, Conversion to Factoring Unit, Change in Cap Rate and Cost Bearer and Acceptance of Bid. While the Admin User is not involved in day to day operational activities, each of these operational activities will be monitored by the Admin User.

6.4.2 Manufacturing /Service Unit/Location Management

Admin User of the Seller can:

- Define New Manufacturing units / locations
 - Add / delete / modify location/manufacturing facilities
 - Assign unique identifier / codes to each such unit
 - Define VAT No. associated for each manufacturing unit / location (if units are located in different states)
- Assign Users / roles to different manufacturing units / locations associated with the Participant.

6.4.3 Client Management

Admin User of the Seller can:

- Create / Remove Buyer-Seller link on the TReDS platform
- Define the internal client code (Customer Code for Sellers and Vendor Code for Buyers) for managing reconciliation with the TReDS platform

6.4.4 Bank Management

- In case of any attempt made for change of Designated Bank Account details or change in the Designated Banker, an automatic alert shall be sent to the registered email IDs including Authorised Officials and all existing banks
- Any change in the Designated Bank Account is subject to approval of RXIL. Such change in the Designated Bank Account details will be applicable for future transactions to be initiated on the TReDS platform.
- For any Instrument created between the date of submission of the request for change in the bank account and until its approval by RXIL, Leg-1 settlement transactions will continue to use the existing Designated Bank Account.
- The Seller is required to submit Bank's confirmation letter (including KYC confirmation) duly attested by the new Designated Bank and submit the same along with the Bank Mandate Form and cancelled cheque leaf to RXIL for approval.
- On approval of RXIL, an alert shall be sent to the Seller, the new banker as well as all existing bankers including earlier Designated Bank.

6.4.5 Profile Update

If there is a change in the constitution of the Seller, the Seller needs to inform and update the same immediately on the TReDS platform. The Seller is also required to submit the necessary documents (as detailed below) to RXIL for approval.

6.4.5.1 *Change in Constitution*

6.4.5.1.1 Proprietorship -> Partnership Firm

- Partnership deed duly signed by all the partners
- Certificate of Registration, if registered with Registrar of Firms
- Copy of PAN of the Partners
- KYC of the Partners
- Bank confirmation letter (KYC, constitution, signatories etc.)
- Fresh Declaration from the Seller unit authorising the Admin User to transact on the TReDS platform

6.4.5.1.2 Partnership Firm -> Proprietorship

- Deed of Partnership dissolution duly signed by all the partners
- Copy of PAN of the proprietor
- Address proof of the concern
- Bankers confirmation letter (For KYC, Constitution, signatories etc.); and
- Fresh declaration from the Seller unit authorising the Admin User to transact on the TReDS platform

6.4.5.1.3 Proprietorship / Partnership Firm -> Company

- Deed of Partnership dissolution duly signed by all the partners, if partnership firm converting into company;
- PAN of the company;
- Certificate of Incorporation of the Company
- KYC documents of the Directors
- MOA & AOA
- Bank Confirmation Letter (For KYC, Constitution, signatories etc.)
- Board Resolution from the Seller unit authorising Admin User to transact on the TReDS platform

6.4.5.1.4 Company -> Limited Liability Partnership (LLP)

- Partnership deed duly signed by all the partners
- Copy of PAN of the LLP
- KYC of the partners
- Bank confirmation letter (KYC, constitution, signatories etc.)

- Fresh Declaration from the Seller authorising the Admin User to transact on the TReDS platform
- In case a company converted to an LLP, ROC registration certificate for conversion to LLP

6.4.5.2 MSME Status Change

Any change in the MSME status of the Seller is required to be updated on the TReDS platform and the necessary documents indicated below are to be submitted to RXIL for approval.

- If Micro Enterprise changes to Small Enterprise or Small Enterprise changes to Medium Enterprise.
 - MSME certificate /Entrepreneurship memorandum /Udyog Aadhaar Number (if available) is required to be submitted
 - A Chartered Accountant (CA) certificate not older than 3 months certifying the MSME status

Note: In case the status of a Seller is upgraded such that it ceases to be an MSME, the account of the Seller shall be De-activated immediately on the TReDS platform. Any pending Instrument/Factoring Unit shall be marked as “Expired” with reasons ‘Status Change from MSME to Large’.

6.4.5.3 Address Change

Any change in address details (Unit/Registered Office/Communication address) are required to be updated on the TReDS platform. The relevant documents indicated below are required to be submitted to RXIL for approval.

- Any latest address proof (not older than three months) acceptable as defined in the empanelment process

6.4.5.4 Contact / Email ID Change

Admin User of a Seller is allowed to change its own and the Seller’s email ID and contact number but in case of any change in email ID or mobile number of the Authorised Officials, for monitoring purposes an alert shall be sent to the previous email ID / mobile number that, “Email ID /Contact detail has been changed. Please contact your Admin User if you have not requested the change in the Email ID /Mobile Number”.

6.4.5.5 Change in Management

In case of change in Management (addition / removal of directors / Partners) the Seller can update the details on the TReDS platform. Seller shall submit an update request to RXIL and upload the mandatory documents required for this purpose. Physical copies of the documents will be submitted to RXIL for approval. No further creation of Instrument will be allowed until any such modification/updation is approved/ rejected by RXIL.

6.4.5.5.1 Company

- Form DIR-12 under the Companies (Appointment and Qualification of Directors) Rules, 2014 for change in composition of directors – Addition / retirement
- KYC document of the new Promoter(s)/director(s) and
- Bank confirmation letter (for KYC, signature verification etc.)

6.4.5.5.2 Partnership Firm

- Deed of dissolution of the partnership deed
- KYC document of the new partner(s) and
- Bank confirmation letter (for KYC, signature verification etc.)

6.4.5.5.3 Change in Proprietor – Proprietorship

This should be treated as a new registration and the Sellers needs to apply afresh for registration.

- Seller shall submit an update request to RXIL and upload attested copies of the mandatory documents required for this purpose. Physical copies of the update request together with hard copies of such mandatory documents will be submitted to RXIL for approval.
- No further creation of Instrument will be allowed until any such modification/updation is approved/ (rejected) by RXIL admin.

6.5 Master Data Management – Buyer**6.5.1 User Management**

- Buyer can assign Maker and Checker roles to Authorised Officials /employees to carry out transaction on the TReDS platform
- Admin User of the Buyer has the right to add / update / assign the roles to different officials / employees of the Participant.

Operational Users are authorised Users of the Participant to carry out the factoring transactions on the TReDS platform and includes activities such as Instrument Creation, Conversion to Factoring Unit, Acceptance of Bid etc. While the Admin User is not involved in the day to day operational activities, however, each of these activities will be monitored by the Admin User.

6.5.2 Manufacturing / Service Unit/Location Management

The Admin User of the Buyer can:

- Add locations/ units or change or remove existing location / unit

- Add/delete units and shall assign unit codes to each such unit
- Enter VAT No. of each unit (if different for different units)
- Assign Users and roles to different unit / locations of the Buyer
- Buyer can define limit to each linked Seller
- Buyer need to submit duly certified copy of VAT registration Certificate and Address Proof of the Unit / Location to RXIL for approval

6.5.3 Bank Management

- Buyer is allowed to change the Designated Banker / Bank Account subject to settlement of entire Obligations by the existing Designated Bank
- The Buyer is required to submit the request to RXIL along with Bank's confirmation letter (including KYC confirmation) duly attested by the new Designated Bank, Auto Debit Mandate Form and cancelled cheque leaf to RXIL for approval.
- The Buyer shall not be allowed to carry out any further factoring transactions and also its existing Factoring Units will be disabled on the TReDS platform from the date of receipt of such request at RXIL until its approval by RXIL.
- On approval by RXIL, alert shall be sent to the Buyer, the new banker as well as all existing bankers.

6.5.4 Financier Management

- The Buyer can add/ update existing Financiers
- By default the Buyer can deal with all Financiers for auction. If the Buyer does not want to deal with a specific Financier, the Buyer can remove such Financiers from the list.

6.5.5 Updation of Profile

In case of any change in constitution of the Buyer, it is responsibility of the Buyer to inform RXIL and update the same immediately on the TReDS platform and forward the same to RXIL for approval. The Buyer is also required to submit the necessary documents (as detailed below) to RXIL for approval.

6.5.6 Change in Constitution

6.5.6.1 Private Limited Company -> Public Limited Company or Vice Versa

- Certificate of incorporation
- New Memorandum of Association & Article of Association
- New PAN of the company
- Fresh KYC documents of the all directors
- Fresh Bank confirmation letter (KYC, constitution, signatories etc.) and
- New board resolution from the Buyer authorising the Admin User to transact on the TReDS platform

6.5.6.2 Address Change

- Any latest address proof (not older than three months) acceptable as defined in the empanelment process.

6.5.6.3 Management Change

6.5.6.3.1 In case of private or public limited company:

- Form DIR-12 under the Companies (Appointment and Qualification of Directors) Rules, 2014 for change in composition of directors – Addition / retirement
- KYC document of the new Promoter(s)/director(s) and
- Bank confirmation letter (for KYC, verification etc.)

6.6 Master Data Management – Financier

6.6.1 User Management

- Admin User of the Financier can assign Maker and Checker roles to Authorised Officials /employees to carry out transaction on the TReDS platform.
- Admin User of the Financier has the right to add / update / assign the roles to different officials / employees of the Financier.
- The Financier can assign limit to each Buyer and if required limit to Sellers within each Buyer's limit.

Operational Users are authorised to enter bids for factoring units available for auction on the TReDS platform. While the Admin User is not involved in day to day operational activities, however each of these activities will be monitored by the Admin User.

6.6.2 Branch/Location Management

The Admin User of the Financier can

- Add/delete branch/location and shall assign unit codes to each branch/location.
- Assign Users and roles to its different branch /locations of the Financier.

6.6.3 Bank Management (For Non-Bank Financiers)

- Any change attempted for a bank account or change in the Designated Banker will result into an alert to the registered email IDs of Promoters / Authorised Officials, earlier Designated Banks as per the records of RXIL
- Any change in the bank details will have to be escalated to management of the Financier

- Any change in the Designated Bank Account will be applicable only for future Leg-1 & Leg-2 settlement transactions only
- From the submission of the request for change in the bank account and till the approval of the RXIL, uploading of the Invoice would not be allowed for Auction.
- On approval of RXIL, alert shall be sent to the Financier, the new banker as well as all existing banker

6.6.4 Risk Management

- The Financier can define Overall TReDS Exposure Limit on the TReDS platform. The Overall TReDS Exposure limit is the overall limit allowed by the Financier across all Buyers and Users of the Financiers on the TReDS platform
- The Financier can define limits on each Buyer
- The Financier can set limit for each Buyer-Seller link
- The Financier can set the Bid Rate range applicable for all Bids at Overall Level and specific for a Buyer
- The Financier can define User level limits within the Financier

6.6.5 Profile Update

- The Financier can update address, email ID and contact details (Registered Office/Communication address)
- The Financier shall submit a request to RXIL and upload copies of the mandatory documents required for this purpose. Physical copies of the update request together with hard copies of such mandatory documents should be submitted to RXIL for approval.
- No further bidding will be allowed until any modification/updation is approved by RXIL

6.6.6 Category Change

- RBI registration certificate

6.6.7 Address Change

- Any of the latest address proof (not older than three months) acceptable as defined in the registration process – Registration.

7 Glossary

Acceptance of Instrument – The process of flagging the Instrument as “Accepted” by the Counterparty.

Acceptance Window – The time-period allowed to the Counterparty to accept the Instrument.

Activation – The process of enabling the Applicant / Participant or any other User or Admin User to carry out transactions on the TReDS platform upon completion of the registration process.

Adjustment – A settlement or waiver of a claim or a debt or any part thereof provided by a Seller in an Invoice or Instrument.

Admin User or Administrator – A Promoter / official / employee / person to whom, an Applicant/Participant has granted authorisation through a board resolution or a declaration or a letter of authorisation to act as the administrator of the Applicant/ Participant on the TReDS platform and to assign roles, manage, and monitor the overall operations / activities on the TReDS platform on behalf of the Applicant/Participant.

Applicant – An entity who applies for registration/empowerment (as Seller or Buyer or Financier) on the TReDS platform.

Annual Fee – Annual Fee is the yearly service fee to be paid by the Participants to avail the continued services of the TReDS platform for purpose of trade financing and other services.

Assignment – Transferring the ownership of the receivables or Invoices in favor of a Financier for getting the same Financed or Factored. Upon completion of an Assignment, the Financier becomes the owner of the Invoice or receivables payable thereunder.

Auction – Auction is the process that involves the offer to sell factoring Units on the TReDS platform by way of auction, in which Factoring Units are sold to a Financier in the manner set out in these Business Rules.

Auction End Date – The date till the Factoring Unit will be available for the Auction.

Auction Start Date – The date on which the Instrument is converted to Factoring Unit and put into the Auction.

Authorised Official – Authorised Official may be a Promoter / official / employee / person of the Applicant/Participant to whom the Applicant / Participant has granted the legal authority through a board resolution or a declaration or otherwise in a manner acceptable to RXIL, to sign any documents (including legal documents) on behalf of the Applicant/Participant for registration on the TReDS platform or any other document required by RXIL from the Applicant/ Participant from time to time.

Auto-Acceptance – The process by which the Cost Bearer accepts the Bid automatically without any manual intervention.

Auto-debit – Automatic debit of account by RXIL through its Sponsor Bank/NACH to settle the obligations of the Participant based on a debit mandate provided by the Participant.

Application Program Interface (API) - A set of routines, protocols, and tools made available by RXIL to help Participants connect with the TReDS platform in an automated way and integrate the same with their own software and applications.

Auto Conversion – Auto conversion is the process of converting an Instrument to a Factoring Unit immediately on acceptance of the Instrument by the Counterparty.

Balance Tenor – The balance number of days available on a particular date, within which the Buyer is required to make the payment to the Seller against an Invoice.

Beneficiary – The Participant (or as the case may be, the Exchange) who receives the payment from other Participant.

Bid – Any offer made by a Financier during the Auction for factoring of the Factoring Unit.

Bid Acceptance / Acceptance of Bid – The process of accepting the offer of the Financier by the Cost Bearer either through automatic process (based on Auto Acceptance preferences set by Cost Bearer) or manual process.

Bid Rate – The discount rate offered by the Financier during the Auction for factoring of the Factoring Unit.

Buyer's Exposure Limit or Buyer's Limit – The limit defined by the Financier on a particular Buyer for factoring through the TReDS platform.

Cap Rate – The maximum rate defined on the TReDS platform, which is acceptable to Seller or Buyer for the purpose of Auto-Acceptance of Bids.

CERSAI – The Central Registry of Securitization, Asset Reconstruction and Security Interest Repository. CERSAI has been set up under section 20 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002.

Corporate – Any entity that is a 'company' as defined under the Companies Act, 2013 or any legislative re-enactments of the same.

Cost Bearer – The Participant (either Seller or Buyer) who bears the Interest Cost for factoring of Invoice / Bill by the Financier.

Cost / Financing Cost/ Interest Cost – The discount charged by the Financier for financing the Factoring Unit.

Counterparty – The counterparty of the Originator or vice versa for a particular transaction on the TReDS platform carried out by the Originator. The Counterparty can accept the transaction (viz. Instrument creation, Buyer-Seller link etc.) carried out by the Originator on the TReDS platform.

Credit File/ Credit Instruction File/ Pay-out-File – An instruction to the Sponsor Bank from RXIL to issue credit instructions in favour of the Designated Bank Account of Sellers, Financiers and/ or RXIL (as the case may be).

Credit period – The number of days within which the Buyer needs to make payment to the Seller for the good and services provided by the Seller.

Cut-off Time – The defined time-line after which the Obligation is determined for all the Factoring Units for which Bids have been accepted by the Cost Bearer. If the Bid is accepted within such cut-off time manually or automatically, then Leg-1 Obligation will be generated and will be due and settled on T+1 day. If the Bid is accepted after such cut-off time manually or automatically, then Leg-1 Obligation will be generated and will be due and settled on T+2 day.

De-activation – The process of disabling the Applicant/Participant or any User or Admin User from accessing the accounts created by them for registration or for carrying out any other transactions on the TReDS platform.

Pay-In-File/ Debit File – An instruction to the Sponsor Bank from RXIL to issue debit instructions to the Designated Bank Account of Financiers / Buyers in favour of TReDS Clearing and settlement account with Sponsor Bank through NPCI NACH Debit mechanism.

Default – The incident of non-payment of the Obligation by the Financier / Buyer in favour of Seller / Financier on the respective Due Date.

Discounting - The process followed by the Financiers or factors to determine the present value of the receivables, whose payment is to be received in the future, by way of deducting a certain sum of value of the receivables called “discount”.

Designated Bank – Any banker (working capital banker / current account banker) of the Applicant / Participant identified for the purpose of carrying out any financial transactions related to factoring of Invoices on the TReDS platform.

Designated Bank Account - Any bank account maintained by the Participants with the respective Designated Bank for the purpose of carrying out any financial transactions related to factoring of Invoices on the TReDS platform.

Due Date – The absolute date or system calculated date (considering the holiday, if any) whichever is earlier, on which the Buyer is required to make a payment to the Financier for a factored unit, determined in the following manner:

Due Date = (Goods/Service Acceptance Date + Credit Period).

In case Due Date falls on a holiday, then the system calculates the due date as the preceding Working Day.

Due Diligence – The process of verification of the credentials of the Applicant/Participant and/or any other individual / person(s) associated with the Applicant/Participant (including third party viz. Chartered Accountant/CA firms etc.), who undertakes any activity on behalf of/in favour of the Applicant/Participant to get registration /carry out transactions on the TReDS platform.

Entity – Any Seller, Buyer or Financier, who is eligible to apply for registration as per norms defined by the TReDS platform.

Exchange / RXIL – The Receivables Exchange of India, a company incorporated under the Companies Act, 2013 to set up and manage the TReDS Operations as approved by RBI.

Factor - A financial intermediary including banks, NBFC- Factors and other eligible entities permitted by RBI to purchase the trade receivables from a Seller. A factor is essentially a funding source that agrees to pay to the Seller the value of the Invoice less a discount for commission and fees.

Factored Proceeds – The monetary value of the trade receivables received by the Seller after factoring by the Financier.

Factoring –A financial transaction and a type of post-sale working capital finance / debtor finance in which a Seller sells its accounts receivable (i.e., Invoices) to a third party (called a factor) at a discount.

Factoring Regulation Act, 2011 - The Factoring Regulation Act, 2011 (No. 12 of 2012).

Factoring Unit – Any Instrument created by an Originator and accepted by the counter party on the TReDS platform is termed as “Factoring Unit”. Each factoring unit carries the details of Factoring Unit Number (FUN), Name & Member code of the Seller and the Buyer, Due Date, Factoring Unit value, Cap Rate and Cost Bearer. It is a one to one relationship between the Buyer and the Seller.

Factoring Unit Value – The monetary value of the Factoring Unit at the time of initiation of Auction.

Failed Transaction – The Obligation which is not settled within the timeline defined by RXIL.

Goods Acceptance Date – The date on which the Buyer accepts the goods sold and delivered by the Seller.

Good Till Date – The cut-off date after which the Bid of the Financier will become invalid.

Government Department – Any Department/s of the Union Government of India, or one of the state or territorial governments, or both.

Instrument – A unit representing an Invoice or a bill of exchange of the Seller that is created through a process on the TReDS platform but not converted to a Factoring Unit.

Invoice – A commercial document that itemizes a transaction between a Buyer and a Seller. An invoice includes the quantity of sale, price of goods and/or services, date, parties involved, unique invoice number and tax information. If goods or services are purchased on credit, the invoice specifies the terms of the deal and includes information on the method of payment.

KYC or Know Your Customer – A process to obtain information and verify the identity and address of the customers. This process helps to ensure that services are not misused. The KYC procedure is to be completed by the RXIL while registering the Participants on the TReDS platform and also periodically update the same.

Leg-1 Failed – Non-settlement of Leg-1 Obligation by the Financier to the Seller on the Leg1 Due Date.

Leg-1 Obligation– The obligation of the Financier to make a payment to the Seller on Acceptance of Bid by Seller / Buyer and on factoring / financing of invoice / Factoring Unit.

Leg-1 Settlement – The settlement of obligation of Financier in favour of the Seller and/or settlement of obligation of Seller in favour of the Exchange based on the Leg-1 Settlement Due Date generated by RXIL.

Leg-2 Failed – Non-settlement of Leg-2 Obligation by the Buyer to the Financier on the Leg2 Due Date.

Leg-2 Obligation – The obligation of the Buyer to make a payment to the Financier on the Due Date arising out of Leg-1 Settlement between Financier and Seller and its subsequent re-assignment of trade receivables from Seller to the Financier.

Leg-2 Settled – Settlement of Leg-2 Obligation by the Buyer to the Financier on the Due Date for Leg-2.

Leg-2 Settlement – The settlement of Obligation of Buyer in favour of the Financier on the Due Date for Leg-2.

Maker/Checker – Maker is the User of a Participant duly authorised by an Admin User, who initiates a transaction on the TReDS platform. Checker is another User within the same Participant duly authorised by an Admin User, who reviews and approves the transaction initiated by the Maker.

Manual Acceptance - The process by which the Cost Bearer accepts the Bid manually by clicking on accept button.

Manual Conversion – Conversion of the Instrument to Factoring Unit manually by the Originator after the acceptance of the Instrument by the Counterparty.

Master Agreement – The respective agreements between the relevant Applicant and RXIL for the purpose of registration and participation of the Applicant on the TReDS platform.

MSMED Act – The Micro, Small and Medium Enterprises Development Act, 2006 (No. 27 of 2006).

NACH or National Automated Clearing House – A web based centralized solution in India provided by NPCI to facilitate interbank, high volume, electronic transactions which are repetitive and periodic in nature.

Non-recourse / without recourse – Without a right to recover any obligation of the Buyer from the Seller.

NPCI or National Payments Corporation of India – A corporation authorised by Reserve Bank of India under Payment and Settlement Systems Act, 2007 to the operate National Automated Clearing House (NACH).

Obligation – The financial liability that a Participant owes to another Participant that is required to be paid on a relevant Due Date.

Obligor – The Participant who owes or undertakes an Obligation to another Participant.

Operational Users – Users of the respective Participants authorised to carry out factoring transactions on the TReDS platform and includes activities such as Instrument Creation, Conversion to Factoring Unit, Change in Cap Rate and Cost Bearer and Acceptance of Bid.

Originator – The Participant either Seller or Buyer creating the Instrument.

Participant – An entity registered/empanelled on the TReDS platform.

Platform or TReDS platform – The online portal provided by the RXIL which is used by the Participants to carry out the transactions and other activities related to factoring of the trade receivables of Sellers

Public Sector Undertakings (PSUs) - The companies, which are owned by the Union Government of India, or any state or territorial governments, or any of them and whose majority shares are owned by the Government.

Promoter – An individual who has promoted the sole proprietary concern or the individual promoter of a 'company' as defined in the Companies Act, 2013 or such other person as may be designated as a 'promoter' by RXIL from time to time.

RBI – The Reserve Bank of India established under the Reserve Bank of India Act, 1934 (2 of 1934).

Registration Fee – The fee to be paid by the Applicant to get registered on the TReDS platform.

Return File / Response File – A status update of debit / credit transactions received from Sponsor Bank against the debit / Credit Instruction File provided to them by RXIL.

Service Acceptance Date – The date on which the Buyer accepts the service rendered by the Seller.

Sponsor Bank – The bank which has agreed to act as the agent of RXIL and will submit the data on electronic media or on the network, containing debit instructions prepared by RXIL to NPCI for settlement of the Obligations of the Participants generated on the TReDS platform.

Statutory Due Date – The absolute date or System Calculated Date, by which a Factoring Unit of the Seller are required to be factored and settled in favor of Sellers as per MSMED Act. *In case Statutory Due Date falls on a holiday, then system calculates the Due Date as the preceding Working Day. Statutory Due Date = (Goods/Service Acceptance Date + 45).*

System Calculated Date – The Due Date calculated by the system after taking holidays into consideration.

T Day – The day on which the Bid is accepted within the Cut-off Time or after the Cut-off Time.

T+1 – The Working Day immediately after the Bid Acceptance date.

T+2 – The Working Day immediately after the T+1 day.

Tenor - Tenor of an Invoice is the number of days that a Seller allows the Buyer to make payment against that Invoice.

Trade Discount – A reduction / deduction by the Seller to the amount of goods/services sold to the Buyer.

Transaction – A unit of work performed by the Participants on the TReDS platform that results in any change in Obligations of the Participants.

Transaction Charge – The amount charged on the factored Invoice by the RXIL to Seller for carrying out transaction on the TReDS platform. The Transaction Charge is levied by the RXIL only after the Factoring Unit is factored.

TReDS – Trade Receivables Discounting System.

TReDS Exposure Limit or TReDS Limit – The overall limit defined by the Financier / Buyer for factoring through the TReDS platform.

TReDS Guidelines – The Guidelines issued by RBI on December 03, 2014 for setting up and operating TReDS, as may be amended, revised or superceded from time to time.

User – Any official / employee / person of the Applicant / Participant entity duly authorised by them on their behalf to carry out any activity or any transaction related to trade receivable financing on the TReDS platform.

Working Day – Any day on which banks registered in India are generally open in Mumbai for the transaction of normal banking business, but does not include Saturdays and Sundays.