20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **Trade receivables financing converts unpaid MSME invoices into immediate working capital.**
   It lets a business raise short-term funds against money customers already owe, instead of waiting 30-90 days for payment.

2. **Factoring is the sale of a business's receivables to a financier called a factor, in exchange for upfront cash.**
   The supplier gets cash now and the factor takes over the job of collecting from the buyer.

3. **TReDS is RBI's electronic platform where MSME invoices are discounted through multiple competing financiers.**
   It is a nationwide institutional mechanism set up by the Reserve Bank of India to finance MSME receivables.

4. **Financing done through TReDS is typically without recourse, shifting buyer-default risk to the financier.**
   If the buyer fails to pay, the financier generally cannot recover the money from the supplier.

5. **TReDS financing usually requires no collateral, so no hypothecation or mortgage of assets is needed.**
   This makes the process paperless and hassle-free compared with most bank credit facilities.

6 **The Factoring Regulation Act, 2011 originally restricted factoring mainly to NBFCs whose principal business was factoring.**
Their income and assets also had to come largely from factoring under the earlier rule.

7 **The Factoring Regulation (Amendment) Act, 2021 widened the range of entities permitted to carry on factoring business.**
It liberalised the 2011 Act to allow more non-banking financial companies to enter factoring.

8 **The Factoring Regulation (Amendment) Bill, 2021 was first introduced in Parliament on 14 September 2020.**
Its stated goal was to boost cash flow to MSMEs by expanding factoring participation.

9 **The 2021 amendment let many more NBFCs enter the factoring business by removing the earlier principal-business restriction.**
More financiers in the market widens the supply of funds and financing options available to MSMEs.

10 **The 2021 amendment also aligned definitions of assignment, receivables and factoring with international norms.**
This brought Indian factoring law's terminology closer to globally recognised definitions.

11 **The amendment inserted a formal definition of the Trade Receivables Discounting System (TReDS) into the law.**

TReDS was not separately defined in the original 2011 Factoring Regulation Act.

12 **Trade receivables are amounts owed to a business for credit sales, normally realised within a year.**

Because they are collected within a year, they sit on the balance sheet as current assets.

13 **Factoring's typical flow has five steps: sale on credit, assignment, advance payment, buyer payment and settlement.**

Each step moves the invoice from the MSME to the factor and ultimately to cash in the supplier's hands.

14 **In factoring, the supplier assigns an invoice to a factor, who pays a large part of its value upfront.**

The buyer later pays the full invoice amount to the factor on the due date.

15 **Because factoring is a sale of an existing asset, it does not add a new liability to the seller's books unlike a bank loan.**

A traditional loan creates a liability, while factoring simply monetises a receivable already on the balance sheet.

16 **A traditional bank loan usually needs collateral, while TReDS financing generally does not.**

TReDS financing is typically unsecured and does not require hypothecation or mortgage of assets.

17 **TReDS was set up because MSMEs faced delayed payments from large buyers, causing cash-flow strain despite profitable orders.**

A profitable order on paper can still cause a cash crunch when receivables exceed incoming cash.

18 **On TReDS, the discounting process is largely paperless, making it faster than chasing buyers directly for payment.**

Suppliers get faster invoice and bill discounting at competitive rates through the platform.

19 **Key benefits of trade receivables financing for MSME suppliers include speed, no recourse, no collateral and improved cash flow.**

These four pillars are the core exam points highlighted for the IIBF MSME chapter.

20 **The IIBF Certificate Course on MSME covers factoring, TReDS and the Factoring Regulation Act as exam topics.**

Candidates are expected to know definitions, the factoring flow, benefits and the 2011/2021 regulatory changes.

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