



**GUIDELINE FOR TRADE RECEIVABLES DISCOUNTING SYSTEM (TReDS)
2020**

In exercise of the powers conferred by Section 4 (Section 4.1.1- 4.1.2) of the Payment and Settlement Systems Rules and Regulations 2018, the RMA hereby issues this Guideline for Bhutan QR Payments.

SECTION I: PRELIMINARY

1. Overview

Currently, one of the major challenges faced by the Cottage and Small Industries (CSIs) is to obtain adequate finance, particularly to ensure conversion of trade receivables into liquid funds. To address this issue, setting up and operating the Trade Receivables Discounting System (TReDS) through multiple financiers has been proved to be effective. TReDS is an electronic platform for facilitating the financing of trade receivables of Cottage and Small Industries (CSI) from buyers (individual buyer, corporate, and government and public undertakings) through multiple financiers. Some of the salient features of TReDS are – a) Unified platform for Sellers, Buyers and Financiers; b) Eliminates paper; c) Easy access to Funds; d) Transact online; e) Competitive discount rates; and f) Seamless data flow.

Further, to ensure higher transactions volumes come into the system and to facilitate better pricing, TReDS could deal with both receivables factoring and reverse factoring.

2. SHORT TITLE AND COMMENCEMENT

This Guideline Shall:

- a) Be called Guideline for Trade Receivables Discounting System (TReDS) 2020;
- b) Come into force with effect from January 2021.

3. APPLICATION

This Guideline shall apply to authorized entity operating TReDS in Bhutan.

4. PURPOSE

The purpose of this Guideline is to outline the procedure for setting up and operating the institutional mechanism for facilitating the financing of Trade Receivables of CSIs from buyers (includes private, corporate and government organizations) through multiple financiers.

5. SUPERSESION

This Guideline shall supersede any Provisions, Circulars, or Notifications that are inconsistent with this Guideline.

6. INTERPRETATION

The authority for the final interpretation of any provision of this guideline shall vest with the RMA which, if warranted, may issue such instruction and clarification from time to time as may be necessary to give effect and implement this guideline.

7. AMENDMENT

The amendment relating to addition, changes or repeal of any provisions of this guideline shall be made by the Executive Committee based on the recommendation of the Management.

SECTION II: MEMBERS INVOLVED, AUTHORIZATION, REGULATORY FRAMEWORK FOR TReDS, ELIGIBILITY CRITERIA TO SET UP AND OPERATE THE TReDS

8. MEMBERS INVOLVED:

- a) **CSI Seller:** means Cottage and Small Industries as defined “cottage industries are those industries with an investment of less than Nu.1 million and Small industries with an investment above Nu.1 million and up to Nu.10 million;
- b) **Buyer:** means private, corporate and government and public sector undertakings;
- c) **Financier:** means banks who participate on TReDS platform as financier; and
- d) **RMA:** means the Royal Monetary Authority of Bhutan as defined by the Royal Monetary Authority Act of Bhutan 2010.

9. AUTHORIZATION

- a) Any entity wishing to operate TReDS shall seek written approval from the RMA using form attached in Annexure I, and may apply to the Deputy Governor, RMA; and
- b) An entity shall be an incorporated company in Bhutan under the Companies Act 2016, or amendment thereof or an entity that is approved by the Authority.

10. REGULATORY FRAMEWORK FOR TReDS

The authorized TReDS, which undertakes clearing and settlement activities, would be governed by the regulatory framework put in place by the RMA under the PSSRR 2018 and it will function as an authorized payment system. The activities of the TReDS as well as those of the members in the platform would be governed by the relevant legal and regulatory provisions applicable to various stakeholders in the system.

11. ELIGIBILITY CRITERIA TO SET UP AND OPERATE THE TREDS

Entities desirous of setting up and operating the TReDS platform should fulfill the following criteria:

a) FINANCIAL CRITERIA

- I. Since the TReDS will function as an authorized payment system, they will have to fulfill the financial eligibility criteria set in PSSRR 2018.

b) TECHNOLOGICAL CAPABILITY

- I. The TReDS shall be able to provide electronic platform for all the members;
- II. Information about bills/invoices, discounting and quotes shall be disseminated in real time basis, supported by a robust MIS infrastructure in terms of applications, network, and hardware capabilities to perform transactions securely and efficiently;
- III. The TReDS shall have suitable Business Continuity Plan (BCP) including a disaster recovery site; and
- IV. The TReDS shall have an online surveillance capability which monitors positions, prices and volumes in real time so as to check system manipulation.

c) DUE DILIGENCE OF PROMOTERS

- I. The entities and their promoter should be “fit and proper” – RMA would assess the “fit and proper” status of the applicants on the basis of their past record of sound credentials and integrity; financial soundness and track record of at least 5 years in running their business; and
- II. The RMA may seek feedback on the applicants on the aforementioned or any other relevant aspects from the regulators, and enforcement and investigative agencies like income tax, ACC, CIB etc. as deemed appropriate.

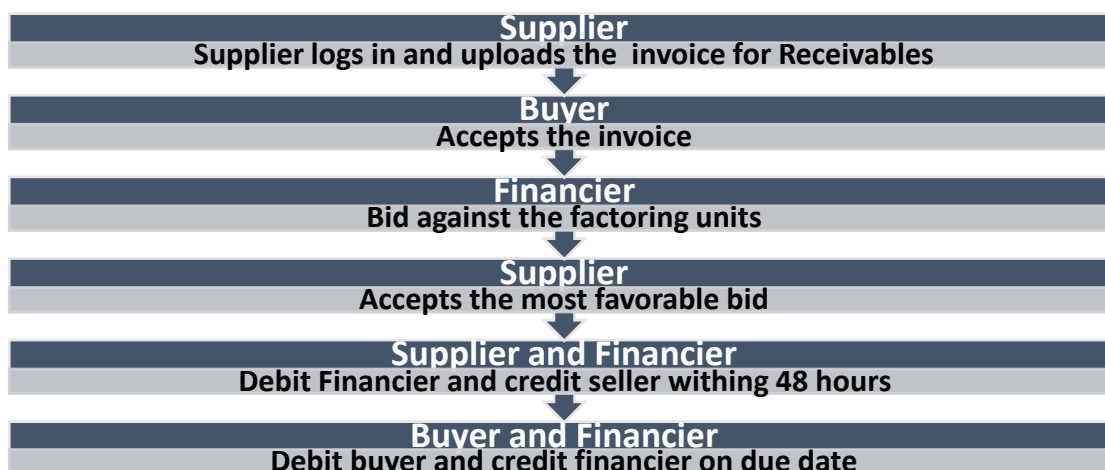
SECTION III: PROCESS FLOW, FACTORING AND REVERSE FACTORING, RESPONSIBILITIES OF THE TReDS OPERATOR, SETTLEMENT PROCESS, REPORTING AND REGULATORY FRAMEWORK

12. PROCSS FLOW

- a) CSI seller will upload an invoice on TReDS or it could be other way – corporate and other buyers including government and public undertakings will send purchase order to CSI seller (outside the purview of the TReDS);
- b) CSI seller will create a “factoring unit” (which would be a standard nomenclature used in the TReDS for an invoice/bill on the system) – along with all the supporting documents in accordance with the standard list or check list of acceptable documents indicated in the TReDS;
- c) Once the factoring unit has been created by the CSI sellers, buyers will get a notification message to accept by logging into the TReDS. In case of reverse factoring, this process of creation of factoring unit could be initiated by the buyer;
- d) The TReDS will standardize the time window within which the buyers could accept the factoring units;
- e) All the transactions made in TReDS shall be factoring units irrespective of whether they represent an invoice or a bill of exchange;
- f) The standard format/features of the factoring unit will be decided by the TReDS – it could be the entire bill/invoice amount or an amount after adjustment of tax/interest, etc. as per existing market practice and as adopted as per the TReDS procedure. Each factoring unit will represent a confirmed obligation of the buyer and will carry the following relevant details:
 - Details of the seller and the buyer; issue date (could be the date of acceptance), due date, tenor (due date – issue date), balance tenor (due date – current date), amount due, unique identification number generated by the TReDS, account details of seller for financier’s reference (for credit at the time of financing), account details of the buyer for financier’s reference (for debit on the due date), etc.
- g) The TReDS should be able to facilitate filtering of factoring units (by financiers or sellers/buyers);
- h) All the cost quoted by the financier shall be available on the TReDS. This price can only be viewed by the CSI seller only;

- i) There will be a window period provided for financiers to quote their bids against factoring units. Once the bid is accepted by the CSI seller, there will be no option for financiers to revise their bids quoted online;
- j) Once the bid is accepted, the factoring unit will get tagged as “financed” and the funds will be credited to the CSI account by the financier on T+1 (T being the date of bid acceptance);
- k) Subsequently, a notice would be sent to buyer’s bank as well as seller’s bank – buyer’s bank would use this information to ensure availability of funds and also direct debit to the buyer’s account on the due date in favor of financier (based on the settlement obligations generated by the TReDS);
- l) On the due date, the financier will have to receive the funds from the buyer. The actual settlement of such funds will be as outlined under the settlement section;
- m) In case of nonpayment by the buyer on the due date to their banker should be tantamount to default by the buyer and enable the banker to proceed against the buyer. Any action initiated in this regard, will be strictly non-recourse with respect to the CSI sellers and outside the purview of the TReDS; and
- n) In the event that a factoring unit remains unfinanced, the buyer will pay the CSI seller outside the TReDS.

13. FACTORING



In factoring, the CSI seller uploads an invoice on the platform and creates a factoring unit (FU). The FU contains necessary details of the invoice in digital format and must be accepted/verified by the buyer. Once it has been accepted, the financier can bid against the accepted invoice. The CSMI/supplier will choose

the best suitable bid and receives the fund at T+1. On the due date of the payment, buyers pay the outstanding amount to the financier.

14. REVERSE FACTORING



In reverse factoring, the buyer uploads an invoice on the platform on behalf of the supplier and creates a factoring unit (FU). The FU contains necessary details of the invoice in digital format and must be accepted/verified by the buyer. Once it has been accepted, the financier can bid against the accepted invoice. The supplier will choose the best suitable bid and receive the fund at T+1. On the due date of the payment, buyers pay the outstanding amount to the financier.

15. RESPONSIBILITES OF THE TReDS OPERATOR

- The TReDS should put in place suitable mechanism whereby the invoice/bill is converted into “factoring unit”. Factoring unit is a standard nomenclature used in the TReDS for an invoice/bill on the system;
- First, the TReDS would facilitate the discounting of these factoring units by the financiers resulting in flow of funds to the with final payment of the factoring unit being made by the buyer to the financier on due date;
- The process flow of the TReDS has to be minimum (the uploading of invoices/bills and creation of factoring units by the CSI seller; its acceptance by the buyers – corporate, and other buyers, including government and public undertakings); discounting, rate of re discounting of factoring units; sending of notifications at each stage to the relevant parties; reporting and MIS requirements; and generation and submission of settlement of obligations;

- d) The actual business, technical and operational processes and procedures to be followed in the system will be prepared by the entity operating the TReDS;
- e) The TReDS may also undertake some random audits to ensure that the factoring units uploaded on the exchange are authentic and based on genuine underlying transactions involving the sale of goods and services;
- f) The TReDS would put in place a standardized mechanism/process for on boarding of buyers and sellers on the platform. The one time on boarding process will require the entities to submit all KYC related documents along with resolutions/documents specific to authorized personnel of the buyer, and the CSI seller. Such authorized personnel would be provided with IDs/Passwords for TReDS authorizations (multi-level);
- g) There would be an agreement drawn up amongst the members in the TReDS:
- Agreement between the financier and the TReDS (stating the terms and conditions of dealings between both the entities);
 - Agreement between the buyers and the TReDS (agreement to clearly capture obligation to pay on the due date once the factoring unit is accepted online; no recourse to disputes with respect to quality of goods or otherwise); and
 - Agreement between the CSI sellers and the TReDS (stating the terms and conditions of dealings between both the entities).
- h) Other procedural aspects of TReDS functioning and operations may be incorporated either in the agreement, if so, necessitated by the participants, or in the procedural guidelines where applicable. The agreement may also clearly indicate that any legal proceedings to be initiated by one entity against another, if at all, will be outside the purview of TReDS.

16. SETTLEMENT PROCESS

In order to ensure a smooth process of such payments, the TReDS would be required to:

- a) Trigger settlement between financier and CSI for accepted bids – In respect of all factoring units financed on a given day, the TReDS will generate the payment obligations of all financiers on T+1 basis and send the file for settlement in any of the existing payment system as agreed among the system participants. The TReDS would have to put in place a separate recourse mechanism to handle settlement failures in respective payment systems;
- b) Trigger settlement between the buyer and the ultimate financier on due date – The TReDS would generate the payment obligations file and send the same for settlement on due date to the relevant payment system;
- c) The TReDS will generate the settlement files and send the same to banks for actual payment of funds.
- d) If any defaults between the buyer and his financier, the buyer bank shall handle the defaults and will not be the responsibility of the TReDS;
- e) The TReDS would be required to put in place a mechanism for bankers to report defaults in payments by buyers. The TReDS would also need to ensure adequate arbitration and grievances redressal mechanism is in place.

17. REPORTING

- a) The TReDS shall maintain all transaction effected through TReDS on a daily and monthly basis;
- b) Entity shall ensure timely submission of data to RMA from time to time; and
- c) Failing to submit the report and submission of wrong data shall be dealt as per Penalties Rules and Regulations 2019.

SECTION IV: INDEMNIFICATION, AML/CFT COMPLIANCE, CONFIDENTIALITY, AND PENALTY

18. INDEMNIFICATION

All members participating in the TReDS shall defend, indemnify, and protect themselves from all loss and liabilities, if any, except arising out of the following:

- a) Member 's failure to perform its duties and responsibilities;
- b) Malfunctioning of member 's equipment;
- c) Fraud or negligence on the part of a member;
- d) Unauthorized access to TReDS system, and
- e) Member 's software, hardware, or any other equipment violates copyright and patent laws.

19. AML/CFT COMPLIANCE

All TReDS participants should comply with proper Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) checks as stipulated by FID, RMA and other regulatory bodies, regulating the activities of the members before registering any participants in TReDS system.

20. CONFIDENTIALITY

All members participating in the TReDS shall maintain the confidentiality of the data. Each member shall treat TReDS related documents strictly confidential and shall not disclose to third parties without prior written permission from RMA.

21. PENALTY

RMA reserves the right to impose penalties on the members if they have violated any of the provisions specified under these guidelines. Penalty may include imposing a fine decided by RMA or suspending/terminating of end-to-end (host-to-host) connectivity of the member.

Annexure I

FORM A: RMA/TReDS

Date:

To
The Deputy Governor
Royal Monetary Authority of Bhutan
Thimphu, Bhutan.

Subject: Authorization to Operate TReDS

Dear Sir/Madam,

The (Entity name) would like to operate in the TReDS.

We agree to abide by the Guidelines for TReDS 2020 and comply with the technical and operational requirements in the event of being admitted into the Network/System.

We will ensure that adequate balance would be maintained in our account with Royal Monetary Authority of Bhutan for settlement obligations relating to TReDS transactions.

We authorize the Royal Monetary Authority of Bhutan to debit our account maintained at Banking Department, RMA for all transactions relating to TReDS.

Therefore, we would like to request the RMA to kindly approve our participation in the TReDS Network/System.

Yours sincerely,

Signature:

Name:

Designation of the authorized signature

Annexure II

FORM B: RMA/TReDS

Date:

To

The.....

.....

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Subject: Authorization to Operate TReDS.

Dear Sir,

The RMA is pleased to inform that..... (Entity name) has been authorized to operate TReDS with effect from.....

As the operator of TReDS, you are required to adhere to the Guideline for TReDS 2020, and comply with the technical and operational requirements prescribed by the RMA.

Further, as authorized vide your letter no. dated, we will be debiting your current account maintained at Banking Department of Royal Monetary Authority of Bhutan for all transactions relating to your TReDS operations.

Yours sincerely,

Signature:

Name:

Designation of the authorized Signatory