



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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September 11, 2012

All Scheduled Commercial Banks
(excluding RRBs)

Madam/Dear Sir,

Bank Finance to Factoring Companies

Please refer to paragraph 2 of our [circular DBOD.BP.BC.No.60/08.12.01/2007-08 dated February 12, 2008](#) on 'Bank Finance to Factoring Companies', in terms of which banks can extend financial assistance to support the factoring business of Factoring Companies which comply with certain criteria.

2. Subsequent to the issue of the above circular, the Factoring Regulation Act, 2011, which regulates factoring companies and, inter-alia, defines the terms 'factor, factoring business, principal business, assignment', etc., has come into force. The Act has also given powers to the Reserve Bank to stipulate conditions for 'principal business' in terms of assets and gross income as also powers to give directions and collect information from factors.

3. Accordingly, the Reserve Bank has introduced a new category of NBFCs viz.; 'Non-Banking Financial Company – Factors' and has issued a [Notification DNBS.PD.No.247/CGM\(US\)-2012 dated July 23, 2012](#) in this regard. Paragraph 6 (i) of the above Notification has prescribed 'Principal Business' of such an NBFC and it states that "An NBFC-Factor shall ensure that its financial assets in the factoring business constitute at least 75 percent of its total assets and its income derived from factoring business is not less than 75 percent of its gross income."

4. In view of the above, the criteria regarding asset and income of factoring companies eligible for bank finance have been reviewed. Accordingly, banks can henceforth extend financial assistance to support the factoring business of Factoring Companies which comply with the following criteria:

(a) The companies qualify as factoring companies and carry out their business under the provisions of the Factoring Regulation Act, 2011 and Notifications issued by the Reserve Bank in this regard from time to time.

(b) They derive at least 75 per cent of their income from factoring activity.

(c) The receivables purchased / financed, irrespective of whether on 'with recourse' or 'without recourse' basis, form at least 75 per cent of the assets of the Factoring Company.

(d) The assets / income referred to above would not include the assets / income relating to any bill discounting facility extended by the Factoring Company.

(e) The financial assistance extended by the Factoring Companies is secured by hypothecation or assignment of receivables in their favour.

Yours faithfully,

(Rajesh Verma)

Chief General Manager