

TRADE RECEIVABLES DISCOUNTING SYSTEM (TReDS): ACCELERATING CASH FLOW FOR MSME GROWTH

INTRODUCTION:

Micro, Small and Medium Enterprises (MSMEs) play a critical role in the Indian economy by contributing significantly to the GDP, employment generation, and exports. According to the *Annual report 2024-25 of MSMEs*, they contribute up to 30.1% of GDP, 35.4% of manufacturing and 45.73% of exports in the country¹. They prove to be a key driver of inclusive and regional economic development by promoting entrepreneurship in both urban as well as rural areas. MSMEs also support larger industries through supply chain linkages, making them integral to overall economic resilience. Despite their importance, they often face challenges such as limited access to timely finance, which has led to policy initiatives like the *Trade Receivables Discounting System (TReDS)* to improve their liquidity and cash flow management².

TReDS is a digital platform regulated by *Reserve Bank of India (RBI)* under the *Payment and Settlements (PSS) Act, 2007*. It is an electronic platform designed to facilitate the financing of trade receivables of *Micro, Small and Medium Enterprises (MSMEs)* through a transparent, market-based mechanism involving multiple financiers. It enables MSMEs to convert their trade receivables arising out of invoices or bills of exchange issued to buyers such as Corporates, Government departments, or Public Sector Undertakings (PSUs) into immediate liquidity by ‘discounting’ them on an online platform by a mechanism of ‘Factoring Units’ (FUS)³. As per the RBI Guidelines issued in 2014, subsequently updated in 2018, this system operates on the ‘*principle of factoring and reverse factoring*’, and transactions are conducted “*without recourse*” (without liability) to the MSME seller, meaning the credit risk is primarily borne by the financier based on the buyer’s obligation⁴.

¹ *MSME Sector Accounts for 30.1% of India’s GDP, 35.4% of Manufacturing and 45.73% of Exports in the Country: Union Minister for MSME*, Press Information Bureau (July 4, 2025).

² Ministry of MSME, *Annual report 2024-25*, Government of India, <https://msme.gov.in/sites/default/files/MSME-ANNUAL-REPORT-2024-25-ENGLISH.pdf>

³ *Trade Receivable Discounting System*, (Apr. 9, 2026), <https://vajiramandravi.com/current-affairs/about-trade-receivables-discounting-system-treds-platform/>.

⁴ Reserve Bank of India, *Guidelines for the Trade Receivables Discounting System (TReDS)*, (Issued March 2014) (Updated July 2, 2018) https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=30833 (last visited April 21 2026).

STAKEHOLDERS AND CHAIN CREATION:

The platform includes various stakeholder such as MSME sellers, buyers (Corporates, PSUs, and Government entities), Financiers (banks, NBFCs, and other permitted financial institutions), and TReDS platform operators. Additionally, supporting participants such as banks of buyers and sellers, technology providers, and credit information systems are involved. *The Reserve Bank of India (RBI)* acts as the primary regulator, while transparency, electronic processing, competitive bidding, “without recourse” financing, enforceability of buyer obligations, and compliance with KYC and legal frameworks are its guiding regulatory principles.

The TReDS platform follows a structured process, after a commercial transaction (buying-selling of goods/services), the MSME seller uploads an invoice or bill on the platform, which is converted into a ‘Factoring Unit (FU).’ The buyer then digitally *accepts* this obligation, this step is critical as it establishes the obligation of payment on the buyers part. Once accepted, the financiers such as banks and NBFCs bid on the factoring unit by quoting discount rates buy which they shall pay to the MSME seller. The MSME then selects the most favourable bid, receives funds from the financier and waits for the digital payment to be made by the buyer on the original due date on the platform. The platform ensures electronic documentation, automated notifications, and integration with payment systems for settlement. It also supports both *factoring* (process initiated by seller) and *reverse factoring* (process initiated by buyer), thereby increasing flexibility and transaction volumes.

DEVELOPMENTS OVER THE YEAR:

The *Guidelines issued by the RBI in the year 2014*⁵ laid down the core architecture of TReDS as a digital platform for financing MSME receivables, they were subsequently updated in 2018. The 2018 framework created the institutional backbone of TReDS, focusing on digitisation, risk transfer to buyers, and efficient receivables financing. In Feb’2023, RBI via the *Statement on Development Policies*, signalled a strategic expansion of TReDS as part of broader financial system reforms⁶. The policy recognised that TReDS had already gained

⁵ Supra at note 4.

⁶ Reserve Bank of India, *Statement on Developmental and Regulatory Policies*, TReDS, (Issued February 08, 2023) https://rbi.org.in/scripts/BS_PressReleaseDisplay.aspx?prid=30833 (last visited April 21 2026).

traction (processing ₹60,000 crore annually) and proposed measures to increase participation and liquidity. Key proposals included, allowing insurance participation, expanding the pool of eligible financiers under the Factoring Regulation Act, and enabling a secondary market for factoring units. This stage is important because it reflects a shift from foundational setup to scaling and deepening the market, with emphasis on improving cash flows for MSMEs and enhancing credit access across varying buyer risk profiles.

In the same year, RBI issued a circular in the month of June, which operationalised the February policy proposals and introduced targeted enhancements to improve efficiency and inclusiveness. A major reform was the introduction of ‘credit insurance’, allowing insurance companies to act as a fourth participant⁷. This step was taken to address financiers’ reluctance to fund receivables of ‘lower-rated’ buyers by enabling risk hedging, while ensuring that insurance costs are not passed on to MSMEs. This circular further expanded the financier base by permitting all entities eligible under the Factoring Regulation Act, 2011 to participate, thereby increasing liquidity and competition. Further, it allowed the creation of a secondary market for factoring units, enabling financiers to offload exposures and improving market depth. On the front of operational improvements, it allowed settlement of even ‘unfinanced’ invoices through TReDS (via *National Automated Clearing House NACH*) to reduce reconciliation issues, and enhancing transparency in bidding by displaying bid details (without revealing bidder identity). Overall, this circular significantly improved market efficiency, participation, and transparency, making TReDS more robust and user-friendly for MSMEs.

Recently on 8th of April 2026, the RBI issued a draft ‘*Master Direction*’ which consolidates all of its predecessors and modernizes the TReDS framework. A key objective of it, is harmonisation and simplification by bringing together all earlier guidelines and circulars into a single regulatory structure⁸. The draft proposes streamlined minimum capital requirements for entities seeking entities seeking authorisation to set up and operate a TReDS platform (*INR 25 Cr.*) aligned with other payment system operators and simplified onboarding processes for MSMEs, directly targeting ‘*ease of access*’. The scope of participants is further broadened to formally include insurance companies and credit guarantee institutions like the

⁷ Reserve Bank of India, *Expanding the Scope of Trade Receivables Discounting System*, TReDS, (Issued June 07, 2023) https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=55179 (last visited April 21 2026).

⁸ Reserve Bank of India, *Draft (Trade Receivables Discounting System) Directions, 2026*, (Issued April 08, 2026) https://rbi.org.in/scripts/FS_Notification.aspx?Id=12510&fn=9&Mode=0 (last visited April 21 2026).

National Credit Guarantee Trustee Company (NCGTC), enabling both insurance and guarantee-backed financing. This strengthens risk mitigation mechanisms and encourages wider financing participation. The directions also formalise operational elements such as mandatory assignment registration with *Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI)*, stronger due diligence, improved Governance norms, and expanded settlement capabilities (including insurance premiums and claims). Importantly, they retain the ‘without recourse’ principle and reinforce legal clarity and enforceability.

CONCLUSION:

So far, the evolution of the TReDS framework reflects a clear regulatory intent to strengthen MSME financing by addressing structural issues in receivables management. Right from establishing a digital infrastructure in its initial phase to expanding participation, improving risk mitigation, and enhancing operational efficiency, TReDS has progressively developed into a more robust and inclusive ecosystem. The proposed *2026 Master Directions* mark a shift towards ‘consolidation and standardisation’, aiming to simplify access while deepening market participation. At the same time, it is important to note that the 2026 guidelines are currently in ‘draft form’ and open for stakeholder comments (till 2nd of May’26), and are therefore subject to change before final implementation. If implemented effectively, these reforms have the potential to significantly improve liquidity cycles for MSMEs, reduce credit constraints, and further integrate them into formal financial systems, thereby supporting sustained and inclusive economic growth.