



## INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

e-file No. IFSCA-FCR0ITFS/2/2024-Banking

March 11, 2026

### **Public Consultation on draft guidelines on capital relief and prudential requirements for factoring transactions for FC/FUs**

**Objective:** The objective of this consultation paper is to seek comments/views/suggestions from the public on the proposed “Guidelines on capital relief and prudential requirements for factoring transactions”.

#### **Background:**

1. Currently, the computation of regulatory capital by Finance Companies (FCs) and Finance Units (FUs) in IFSC is governed by provisions of the circular on “Computation of Regulatory Capital” dated April 26, 2021 read with the corrigendum issued on May 26, 2021. Para 4 of the said circular states that the provisions of the circular are aligned with Basel principles for computation of risk weighted assets. Chapter CRE22 (Standardised Approach: Credit Risk Mitigation) of the Basel Framework, inter alia, recognises credit risk mitigation techniques for the purpose of obtaining capital relief subject to compliance with the conditions therein. Pursuant to industry representations requesting an explicit mention of the same, and based on the review of global best practices, the Authority now proposes to introduce guidelines to recognise credit risk mitigation techniques for providing capital relief for factoring transactions undertaken by FCs and FUs operating in IFSCs.
2. As IBUs, being branches of the parent bank, remain subject to the prudential regulations of their respective home regulators, provision of capital for factoring transactions undertaken by them in IFSC shall continue be governed by the guidelines issued by their respective home regulators.
3. The proposed guidelines on capital relief are aligned with Basel III framework. Further, in response to market demand, credit risk mitigation obtained through

other arrangements - such as those offered by members within the FCI network and other similar institutions, is also proposed to be recognised for capital relief

4. Additionally, these draft guidelines incorporate prudential requirements for Finance Companies engaged in factoring transactions, such as exposure norms and NPA recognition, given that the earlier circular on factoring dated August 17, 2021, which contained these requirements, has now been repealed.
5. A draft of the guidelines is placed on the website of the IFSCA at <https://ifsc.gov.in/PublicConsultation>. General public and stakeholders are requested to forward their comments/suggestions through e-mail to Mr. T P Samuel Wesley at [wesly.samuel@ifsc.gov.in](mailto:wesly.samuel@ifsc.gov.in); and Mr. Nishil Patel, Consultant, IFSCA at [nishil.patel@govcontractor.nic.in](mailto:nishil.patel@govcontractor.nic.in) on or before March 31, 2026, in the attached format. The comments may be provided in MS Word or MS Excel format only.

**Format for providing comments / suggestions:**

<b>Name, Designation of the Person</b>				
<b>Contact No.</b>				
<b>Name of Organisation</b>				
<b>Page No of Public Consultation</b>	<b>Para No.</b>	<b>Sub-Para No.</b>	<b>Comments/Suggestions /Suggested Modifications</b>	<b>Rationale</b>

**Draft guidelines on capital relief and prudential requirements for factoring transactions for FC/FUs**

**1. Application**

This circular applies to all Finance Companies / Finance Units in IFSC

**2. Definitions:**

- a) "Factoring transaction" means a transaction pertaining to factoring business;
- b) "Factoring business" shall have the meaning assigned to it in clause (j) of section 2 of the Factoring Regulation Act, 2011;
- c) "Prudentially regulated financial institution" means a legal entity supervised by a regulator that imposes prudential requirements consistent with international norms or a legal entity (parent company or subsidiary) included in a consolidated group where any substantial legal entity in the consolidated group is supervised by a regulator that imposes prudential requirements consistent with international norms;
- d) "Protection provider" means institution from which Finance Company / Unit obtains credit protection

Words and expressions used and not defined in these guidelines but defined in the International Financial Services Centres Authority Act, 2019 (50 of 2019), the Factoring Regulation Act, 2011 or any rules or regulations made thereunder shall have the same meanings respectively assigned to them in those Acts, rules or regulations or any statutory modification or re-enactment thereto, as the case may be.

**Part I: Capital Relief**

**3. Credit Risk Mitigation of Finance Companies and Finance Units undertaking factoring:**

3.1 Finance Companies obtaining credit protection in the form of credit insurance /guarantee for factoring transaction in IFSC from eligible institutions as mentioned in para 3.1(b) shall be eligible for the benefit of capital relief based on the following:

- a) **Risk weight treatment for factoring transaction:**

i) The protected portion of the value of factoring transaction shall be assigned the risk weight of the protection provider. The uncovered portion of the exposure shall be assigned the risk weight of the importer (underlying counterparty) in the factoring transaction.

ii) For factoring transactions undertaken through two-factor model operated through institutions such as FCI, the exposure of the export factor to the importer may be considered as covered by the import factor, provided that the guarantee arrangement between the two factors meets the requirements mentioned in para 3.1 (c) of this circular. Accordingly, the protected portion of the factoring exposure shall be assigned the risk weight of the import factor (protection provider), while any uncovered portion shall be assigned the risk weight of the importer (the underlying counterparty).

**b) Eligible institutions for obtaining credit protection:** Credit protection provided by the following institutions as per the Basel Committee on Banking Supervision (BCBS)'s document titled "Standardised approach: Credit Risk Mitigation" are recognised. The present list is as follows:

(i) Sovereign entities,

(ii) Export Credit Agencies,

(iii) Public Sector Enterprises (PSEs),

(iv) Multilateral development banks (MDBs),

(v) Banks,

(vi) Securities firms and

(vii) Other prudentially regulated financial institutions with a lower risk weight than the counterparty.

**c) Qualifying conditions for credit insurance or Guarantee:** A guarantee or credit insurance ("the credit protection contract") must satisfy the following requirements to qualify for capital relief:

(i) it represents a direct claim on the protection provider;

(ii) it is explicitly referenced to specific exposures or a pool of exposures, so that the extent of the cover is clearly defined and cannot be disputed;

(iii) the credit protection contract is irrevocable, except in the event of non-payment of the fee or premium due under the contract by the Finance Company;

(iv) the credit protection contract does not contain a clause that allows the protection provider to unilaterally cancel the credit cover, change the maturity of the cover or that may increase the effective cost of cover as a result of deteriorating credit quality in the protected exposure.

(v) the credit protection contract should not contain a clause imposing a condition that is outside the direct control of the finance company that could prevent the protection provider from being obliged to pay out in a timely manner in the event that the underlying counterparty fails to make the payment(s) due.

(vii) the guarantee/ credit insurance is an explicitly documented obligation assumed by the protection provider.

(viii) in cases where losses are to be shared *pari passu* on a *pro rata* basis between the Finance Company and the protection provider, capital relief shall be granted on a proportional basis, i.e. the protected portion of the exposure receives the treatment applicable to eligible guarantees/credit insurance, with the remainder treated as unsecured

(ix) Invocation of claim: The finance company must have the right to receive payments from the protection provider in case of qualifying default/non-payment of the counterparty without first having to take legal action in order to pursue the counterparty for payment. The protection provider may make one lump sum payment of all amounts under such documentation to the finance company, or the protection provider may assume the future payment obligations of the counterparty covered by the guarantee.

3.2 In the case of Finance Units (FUs), the eligibility to claim capital relief for factoring transactions under this circular shall apply only where such capital relief for credit risk mitigation is recognised by the home regulator of the parent of the FU.

## **Part II: Prudential requirements**

4. The factoring transactions shall be covered within the overall exposure ceiling as per the Authority's circular bearing 'F. No 172/ IFSCA/Finance Company/Unit Regulations/2021-22/6' dated, May 25, 2021, on 'Framework on Computation of Exposure Ceiling for Finance Companies/Finance Units', as applicable. The exposure shall be reckoned as under:
  - a) In case of factoring on "with-recourse" basis, the exposure would be reckoned on the assignor.
  - b) In case of factoring on "without-recourse" basis, the exposure would be reckoned on the debtor, irrespective of the credit risk cover/ protection provided, except in cases of international factoring where the entire credit risk is assumed by import factor.

- c) In the case of factoring undertaken through the two-factor model operated through institutions such as FCI, the credit protection is provided by the Import Factor. Accordingly, the exposure shall be reckoned on the Import Factor to the extent of the coverage available.
  - d) In cases where credit exposure is protected through a trade credit insurance policy, the exposure shall be assigned to the underlying debtor, limited to the extent of insurance cover available under the policy.
5. The receivable acquired under factoring which remains unpaid for more than 90 days past its due date should be treated as NPA, irrespective of when the receivable was acquired by the factor or whether the factoring was carried out on a “recourse” or “non-recourse” basis. The entity on which the exposure was booked should be shown as NPA, and provisioning should be made accordingly.

*provided that*, in the case of FC/FU having asset size of less than USD 150 million at the end of the previous financial year, any receivable acquired under factoring should be treated as NPA if the same remains unpaid for more than 180 days past its due date.

6. For the purpose of asset classification and provisioning, the Circular bearing F. No 172/ IFSCA/Finance Company/Unit Regulations/2021-22/3' dated May 03, 2021, on 'Prudential Regulations and activity specific Guidelines' issued by IFSCA, shall be adhered to.
7. Since under “without recourse” factoring transactions, the Finance Company/ Finance Unit is underwriting the credit risk on the debtor, there should be a clearly laid down Board-approved limit for all such underwriting commitments.

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