



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA  
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RBI /2014-15/33  
DNBS (PD) CC No. 396/03.02.001/2014-15

July 1, 2014

(as amended up to May 25,2015)

To

All NBFCs

Dear Sirs,

**Master Circular – The Non-Banking Financial Company - Factors (Reserve Bank) Directions, 2012**

As you are aware, in order to have all current instructions on the subject at one place, the Reserve Bank of India issues updated circulars / notifications. The instructions contained in the captioned circular updated till the date as indicated above are reproduced below. The updated notification has also been placed on the RBI web-site (<https://rbi.org.in>).

Yours faithfully,

(K. K. Vohra)  
Principal Chief General Manager

## Table of Contents

<b>Para No</b>	<b>Particulars</b>
	Introduction
1	Short title and commencement
2	Applicability of the Directions
3	Definitions
4	Registration and Matters Incidental Thereto
5	Net Owned Fund
6	Principal Business
7	Conduct of Business
8	Prudential Norms
9	Submission of Returns
10	Export / Import Factoring
11	Miscellaneous
	Appendix

## **Introduction**

The Central Government notified the Factoring Regulation Act, 2011 on January 22, 2012. The Act aims to regulate Factors and assignment of receivables in favour of Factors, as also delineate the rights and obligations of parties to assignment of receivables. Under the Act, factoring companies other than banks, Government companies etc. (Section 5 of the Act) would be registered with the Reserve Bank as NBFCs and would be subject to prudential regulations by the Reserve Bank. In accordance with the above, a new category of NBFCs viz; Non-Banking Financial Company-Factors was introduced and separate Directions were issued to them for meticulous compliance.

### **1. <sup>1</sup>Short title and commencement**

These Directions shall be known as 'Non-Banking Financial Company - Factor (Reserve Bank) Directions, 2012'. They shall come into force with immediate effect and any reference in these Directions to the date of commencement thereof shall be deemed to be a reference to the date of the Directions.

### **2. Applicability of the Directions**

The provisions of these Directions shall apply to every Non-Banking Financial Company - Factor registered with the RBI under Section 3 of the Factoring Regulation Act, 2011.

### **3. Definitions**

(i) "Act" means the Factoring Regulation Act, 2011;

(ii) "Bank" means the Reserve Bank of India constituted under Section 3 of the Reserve Bank of India Act, 1934;

(iii) "Non-Banking Financial Company - Factor (NBFC-Factor)" means a non-banking financial company as defined in clause (f) of section 45-I of the RBI Act, 1934 which has its principal business as defined in para 6 of these directions and has been granted a certificate of registration under sub-section (1) of section 3 of the Act;

(iv) Company means a company registered under Section 3 of the Companies Act, 2013;

(v) Words or expressions used but not defined herein and defined in the Act shall have the same meaning as assigned to them in the Act. Any other words or expressions not defined in that Act shall have the same meaning as assigned to them in the RBI Act, 1934.

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<sup>1</sup> [DNBS\(PD\)CC.No.297/Factor/22.10.91/2012-13 dated July 23, 2012](#)

#### **4. Registration and Matters Incidental Thereto**

(i) <sup>2</sup>Every company intending to undertake factoring business shall make an application for grant of certificate of registration (CoR) as NBFC-factor to the Bank as provided under Section 3 of the Act;

(ii) Existing NBFCs that satisfy all the conditions enumerated in these Directions may approach the Regional Office where it is registered, along with the original CoR issued by the Bank for change in their classification as NBFC-Factor within six months from the date of this notification. Their request must be supported by their Statutory Auditor's certificate indicating the asset and income pattern;

(iii) An entity not registered with the Bank may conduct the business of factoring if it is an entity mentioned in Section 5 of the Act i.e. a bank or any corporation established under an Act of Parliament or State Legislature, or a Government Company as defined under section 617 of the Companies Act, 1956;

(iv) A new company that is granted CoR by the Bank as NBFC-Factor, shall commence business within six months from the date of grant of CoR by the Bank.

#### **5. Net Owned Fund**

(i) Every company seeking registration as NBFC-Factor shall have a minimum Net Owned Fund (NOF) of Rs.5 crore;

(ii) Existing companies seeking registration as NBFC-Factor but do not fulfil the NOF criterion of Rs.5 crore may approach the Bank for time to comply with the requirement.

#### **6. Principal Business**

(i) <sup>3</sup>An NBFC-Factor shall ensure that its financial assets in the factoring business constitute at least 50 per cent of its total assets and the income derived from factoring business is not less than 50 per cent of its gross income

(ii) An existing NBFC registered with the Bank and conducting factoring business that constitutes less than 75 percent of total assets / income was required to submit to the Bank within six months from the date of the notification dated July 23, 2012, a letter of its intention either to become a Factor or to unwind the business totally, and a road map to this effect. However such an NBFCs was required to raise the asset / income percentage as required at 7(i) above or unwind the factoring business within a period of

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<sup>2</sup> In terms of [Press Release 2013-2014/1931 dated April 01, 2014](#), with effect from April 01, 2014, the issue of Certificate of Registration (COR) to the companies proposing to conduct business of NBFIs in terms of Section 45IA of the RBI Act, 1934 has been kept in abeyance by RBI, for a period of one year.

Foot Note: The reference to Companies Act, 1956 in the Master Circular will be changed as and when change is effected in the original circular/notification.

<sup>3</sup> Substituted vide Notification No. 012 dated March 27, 2015

2 years from the date of the above notification. It would be granted CoR as NBFC-Factor only after it reaches the required asset / income percentage.

<sup>4</sup>Also Refer [DBOD.BP.BC.No.40/21.04.172/2012-13 dated September 11, 2012.](#)

## **7. Conduct of Business**

The NBFC-Factors shall conduct the business of factoring in accordance with the Act and the rules and regulations framed under the Act from time to time.

## **8. Prudential Norms**

The provisions of Non-Banking Financial (Non-deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 or Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007, as the case may be and as applicable to a loan company shall apply to an NBFC-Factor.

## **9. Submission of Returns**

The submission of returns to the Reserve Bank will be as specified presently in the case of registered NBFCs.

## **10. Export / Import Factoring**

Foreign Exchange Department (FED) of the Reserve Bank gives authorization to Factors under FEMA, 1999. Therefore, NBFC-Factors, intending to deal in forex through export/import factoring, should make an application to FED for necessary authorization under FEMA, 1999 to deal in forex and adhere to the terms and conditions prescribed by FED and all the relevant provisions of the FEMA or Rules, Regulations, Notifications, Directions or Orders made thereunder from time to time.

## **11. Miscellaneous**

(i) In terms of paragraph 15 of the Non-Banking Financial (Non-Deposit accepting or holding) Companies Prudential Norms (Reserve Bank) directions, 2007 and Non-Banking Financial (Deposit Accepting or Holding) Companies Prudential Norms (Reserve Bank) Directions, 2007 all NBFCs are required to submit Statutory Auditors' Certificate with reference to the position of the company as at the end of the financial year ended March 31 every year. For an NBFC-Factor, such Certificate will indicate the requirement of holding the certificate under section 3 of the Factoring Act. The certificate will also indicate the percentage of factoring assets and income, the compliance that it fulfils all conditions stipulated under the Act to be classified as an NBFC-Factor and compliance to minimum capitalization norms, if FDI has been received;

(ii) Non-compliance to the provisions of these Directions shall invite penal action

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<sup>4</sup> The Circular pertains to Instructions on bank finance to factoring companies.

under the Act.

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**Appendix**  
**List of Circular**

<b>Sr No</b>	<b>Subject</b>	<b>Date</b>
1	<a href="#">DNBS(PD)CC.No.297/Factor/22.10.91/2012-13</a>	July 23, 2012
2	<a href="#">DNBR.012/CGM.(CDS)-2015</a>	March 27, 2015