INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

CIRCULAR

e.F.No. IFSCA-FCR0ITFS/2/2024-Banking **July 21, 2026**

To,

All Finance Companies / Finance Units in the International Financial Services Centre (IFSC)

Subject: Framework on capital relief and prudential requirements for factoring transactions

1. Applicability

This Framework shall apply to all Finance Companies or Finance Units registered under the International Financial Services Centre Authority (Finance Company) Regulations, 2021 undertaking factoring business in the IFSC.

2. Objective

The objective of this Circular is to clarify the applicability of framework of capital relief to Finance Companies or Finance Units undertaking factoring transactions in the IFSC and to further specify the prudential norms for such transactions.

3. Definitions

(1) For the purposes of this Circular, unless the context otherwise requires, the terms defined herein shall bear the meanings as assigned to them below and their cognate expressions shall be construed accordingly, -

a) "Factoring transaction" means a transaction pertaining to factoring business;

b) "Factoring business" shall have the meaning assigned to it under clause (j) of section 2 of the Factoring Regulation Act, 2011(12 of 2012);

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 an eligible institution as listed in para 4.1(b) of this circular and from which a Finance Company or Unit obtains credit protection;

(2) Words and expressions used and not defined in these guidelines but defined under the International Financial Services Centres Authority Act, 2019 (50 of 2019), the Factoring Regulation Act, 2011 (12 of 2012) 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

4. Credit risk mitigation for Finance Companies and Finance Units undertaking factoring business:

4.1 **Credit risk mitigation for Finance Companies:** Finance Companies obtaining credit protection in the form of credit insurance or guarantee for factoring transaction in IFSC from eligible institutions as mentioned in para 4.1(b), shall be eligible for the benefit of capital relief based on the following:

a) **Risk weight treatment for factoring transaction:**
(i) The value of factoring transaction, for which the credit protection from eligible institution is taken (hereinafter referred to as the covered portion), shall be assigned the risk weight of the protection provider. Provided that, the protection provider attracts a risk weight lower than the counterparty.

(ii) The uncovered portion of the exposure shall be assigned the risk weight of the importer (underlying counterparty) in the factoring transaction.

(iii) In case of factoring transactions undertaken under the two-factor model operated through institutions such as FCI, the exposure of the export factor to the importer shall be deemed to be covered by the import factor, provided that the guarantee arrangement between the two factors meet the requirements specified under para 4.1 c) of this circular. Accordingly, the covered portion of the factoring exposure shall be assigned the risk weight of the import factor i.e. protection provider, while any uncovered portion shall be assigned the risk weight of the importer i.e. 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, or

(vii) Other prudentially regulated financial institutions including insurance companies (e.g., IFSC Insurance Offices) and institutions acting as import factors,

c) **Qualifying conditions for credit insurance or guarantee:** A credit insurance or guarantee ("the credit protection contract") must satisfy the following requirements in order to enable the Finance Company or Finance Unit to claim the 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 (including, where applicable, exposures covered under a whole turnover factoring arrangement), 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 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 policy 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.

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

(vii) 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 covered portion of the exposure receives the treatment applicable to eligible credit insurance or guarantee, with the remainder treated as unsecured.

(viii) 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.

4.2 **Credit Risk Mitigation for Finance Units:** In the case of Finance Units, the eligibility to claim capital relief for factoring transactions under this circular shall apply only where such capital relief is recognised by the home regulator of the parent of the Finance Unit. Accordingly, at the time of applying for registration, the parent entity of the Finance Unit shall submit an undertaking confirming that its home regulator recognises capital relief for credit risk mitigation.

5. The benefit of capital relief shall be available to all factors registered with the IFSCA, irrespective of whether the factoring transactions are undertaken through the ITFS platform or independently.

6. The risk weights applicable to exposures shall be assigned in accordance with the provisions set out in the Basel Committee on Banking Supervision's document, *Calculation of RWA for Credit Risk (CRE20)*.

Part II : Prudential requirements

7. All factoring transactions shall be covered within the overall exposure ceiling as per the IFSCA'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 those cases 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 reckoned on to the underlying debtor only to the extent not covered by the trade credit insurance policy, with the covered portion reckoned on to the eligible protection provider.

8. The receivable acquired under factoring which remains unpaid for more than 90 days past its due date shall be treated as Non-performing asset (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 a Finance Company 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.

Provided further that, in the case of a Finance Unit having an asset size of less than USD 150 million as at the end of the previous financial year, the applicable NPA recognition norm shall be the lower of (i) the NPA classification period prescribed by its home country regulator, or (ii) 180 days past the due date.

9. 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.

10. In respect of “without recourse” factoring transactions, where the Finance Company or Finance Unit is underwriting the credit risk on the debtor, it shall have a clearly laid down Board-approved limit for all such underwriting commitments.

11. This circular has been issued in exercise of powers under regulation 4 of the International Financial Services Centre Authority (Finance Company) Regulations, 2021, read with sub-section (1) of section 12 and sub-section (1) of section 13 of the IFSCA Act, 2019, and shall come into force with immediate effect.

Yours faithfully,

(Riddhi Bhandari)
Chief General Manager
Department of Banking