The Chairman/ Managing Director/
Chief Executive Officer
[All Scheduled Commercial Banks
(excluding Regional Rural Banks)]

Dear Sir/ Madam,

**Priority Sector Lending status for Factoring Transactions**

Please refer to [Master Direction FIDD.CO.Plan.1/04.09.01/2016-17 dated July 7, 2016](#) on Priority Sector Lending (PSL) and Guidelines dated December 3, 2014 for setting up of and operating the Trade Receivables Discounting System (TReDS) issued by Reserve Bank of India.

2. To increase liquidity support for the MSME sector, it has been decided that factoring transactions on ‘with recourse’ basis shall be eligible for priority sector classification by banks, which are carrying out the business of factoring departmentally. The factoring transactions taking place through TReDS shall also be eligible for classification under priority sector upon operationalization of the platform.

3. Banks may classify their outstanding factoring portfolio on the reporting dates under MSME category as per Paragraph 7 of Chapter (III) of [Master Directions on PSL dated July 7, 2016](#), wherever the ‘assignor’ in the factoring transaction is a Micro, Small or Medium Enterprise, subject to the corresponding limits for investment
in plant and machinery/ equipment and other extant applicable guidelines for priority sector classification.

4. In this regard, it is also reiterated that as per Paragraph 9 of Department of Banking Regulation Circular DBR.No.FSD.BC.32/24.01.007/2015-16 dated July 30, 2015 on Provision of Factoring Services by Banks - Review, inter-alia, the borrower’s bank may also obtain from the borrower periodical certificates regarding factored receivables to avoid double financing/ counting. Further, the ‘factors’ must ensure to intimate the limits sanctioned to the borrower to the concerned banks and details of debts factored taking responsibility to avoid double financing.

Yours faithfully,

(A. Udgata)
Principal Chief General Manager