

“Approved”

The State Securities Committee
under President of the
Republic of Azerbaijan
Order N 191
29 December 2007

Chairman

_____ **Q.Mammadov**

“Approved”

at the decision of the Management
Board of the Central Bank of
the Republic of Azerbaijan
dated 5 December 2007
Protocol N 38

Chairman of Management Board

_____ **E. Rustamov**

REGULATIONS
ON DISCOUNTING PROMISSORY NOTES IN CREDIT INSTITUTIONS

(with amendments of 15.04.2010)

Baku – 2007

1. GENERAL PROVISIONS

1.1. These Regulations have been developed in line with the Geneva Convention of 07.06.1930 on Providing a Uniform Law for Bills of Exchange and Promissory Notes, the Civil Code of the Republic of Azerbaijan, the Law of the Republic of Azerbaijan on Banks, the Statute of the State Committee for Securities under President of the Republic of Azerbaijan on Circulation of Promissory Notes in the Republic of Azerbaijan, normative acts of the Central Bank of the Republic of Azerbaijan (hereinafter – the CBA) of legal nature, dated 02.02.2000 and determine the order of accounting of promissory notes by credit institutions.

1.2. Definitions used herein shall bear the following meanings:

1.2.1. discount of promissory notes – redemption of a promissory note by a promissory note holder upon maturity in exchange for which the outstanding amount is received via deducting the discount amount from the the promissory note amount;

1.2.2. discount – commissioning amount taken by a credit institution when discounting promissory notes. The discount is computed via the following formula:

$$D = \frac{K * T * F}{360 \times 100}$$

where:

D- discount amount;

K-promissory note amount;

T- period from the date of negotiation of the bill to the date of repayment (the repayment date is ignored);

F- discount rate of the credit institution.

1.2.3. the person, who delivered the bill for negotiation – the last endorser or a promissory note holder on the endorsement;

1.2.4. credit institution – bank or non-bank credit institution.

1.3. Other definitions used herein with respect to the circulation of promissory notes shall bear the meanings specified in the Geneva Convention of 07.06.1930 Providing a Uniform Law for Bills of Exchange and Promissory Notes,

the Civil Code of the Republic of Azerbaijan and the Statute on Circulation of Promissory Notes in the Republic of Azerbaijan dated 02.02.2000.

1.4. Where the license issued by the CBA does not prohibit the sale and purchase of promissory notes, a credit institution shall be registered with the State Committee for Securities under President of the Republic of Azerbaijan (hereinafter – the SCS) in the order specified in the legislation to obtain the right for discounting promissory notes.

Credit institutions shall submit quarterly and annual reports to the SCS in the format specified herein (Annex 1) on conducted operations within 10 days upon the reporting period. Relevant reports shall be delivered to the CBA within the prudential reporting frame.

1.5. Each credit institution entitled to discount promissory notes should have internal regulations in place to regulate their discounts. Credit institutions may not have provisions confronting the legislation in their internal regulations.

1.6. Promissory note acceptance, invalidity of the note payable, its presentment to payment, protesting a note, endorsement invalidity and circulation of promissory notes and other notes not governed by the present Regulations shall be regulated through the legislation.

2. PROVISIONS FOR DISCOUNTING PROMISSORY NOTES

2.1. Credit institutions may discount promissory notes, notes of exchange and exchequer bills (hereinafter – promissory note), which are in full compliance with all requisites specified in the legislation.

2.2. Credit institutions may not discount the following promissory notes:

2.2.1. unaccepted or partially accepted notes of exchange, as well as notes of exchange, on whose face the note on acceptance has been crossed out;

2.2.2. promissory notes, whose maturity expired;

2.2.3. promissory notes, which are invalid in terms of stipulated maturity;

2.2.4. promissory notes, presented in some copies, provided it is impossible to submit all their copies for discount;

2.2.5. when endorsements on promissory notes to be discounted are in blank.

2.3. Credit institutions, in order to regulate credit risks emerging from discounting of promissory notes, may specify additional terms and conditions, but not limited to, for discounting of promissory notes for regulation of risks in their internal regulations:

2.3.1. necessity for availability of successive endorsements in a certain number or uninterrupted of endorsements;

2.3.2. issue of avals (promissory note guarantee) for a payer or another person liable on the promissory note by the third person;

2.3.3. no protests on notes;

2.3.4. no protested notes of an issuer within a specified period of time;

2.3.5. as of the maturity of the promissory note, the period required for it to be sent to the payment place should not be less than reasonable period of time;

2.3.6. drawer does not indicate “not to order”, or equivalent (only to pay to ____) on the body of the promissory note and prohibit later endorsement;

2.3.7. delivery of data on the transaction stipulating issue of the note.

2.4. Provisions in Items 2.3.1 – 2.3.2 and 2.3.7 herein does not apply to exchequer bills.

2.5. Credit institution should verify legal and economic validity of promissory notes, submitted for discount.

2.6. When verifying legal validity of a promissory note, the credit institution should identify that the promissory note is developed under the requirements of the legislation, that the person, who submits the promissory note for discounting is the legal holder of the promissory note, the promissory note is state registered and is in compliance with other provisions specified herein.

2.7. When verifying economic validity of a promissory note the credit institution should identify creditability of the drawee, endorsers, avalers, and drawers (borrowers on promissory notes). Internal regulations of credit institutions may stipulate submission of audited financial statements and/or reports to tax authorities, a bank statement on financial standing and other documents.

3. DISCOUNT OF PROMISSORY NOTES

3.1. The person, who delivers the promissory note for discounting should attach the following documents with the application to the credit institution to have it discounted:

3.1.1. original of a promissory note (if there is a slip affixed thereto (allonge) together), a copy of the promissory note, if the original of the promissory note has a note on its body that only the endorsement on the body is valid upon the last endorsement made until its copy is made;

3.1.2. ID documents of the person who delivered the promissory note for discount (charter of the legal entity registration certificate, ID document of a citizen etc.);

3.1.3. aval (if promissory note guarantee required and a separate slip given);

3.1.4. other documents specified in internal regulations of the credit institution governing discounting of promissory notes.

3.2. The credit institution shall issue a bill to the person who delivered the promissory note for discounting confirming the receipt of the promissory note and register the submitted promissory note in a specific registry. If the promissory note is discounted or rejected to be discounted, relevant notes should be made in the special registry.

3.3. Promissory notes shall be submitted for discount via endorsement in blank (with no bearer indicated). Upon receipt of promissory notes for discount the credit institution shall make "pay to the order of" on the endorsement in blank and put a "registration" stamp on the body of the promissory note

3.4. Upon verification of legal and economic validity of promissory notes in the order specified in Items 2.5 – 2.7 herein, a decision may be taken on discounting of the promissory note. Relevant organizational structure or official of the credit institution authorized to issue loans equivalent to the amount of the promissory note shall be authorized to take a decision.

3.5. When a decision is taken on discounting of a promissory note, the credit institution shall enter into a procurement agreement with the person, who delivered the promissory note for discounting and pay the promissory note amount to him/her deducting relevant discount amount.

3.6. The credit institution should maintain a separate set of documents (promissory note file) per promissory note it discounts and incorporate all documents accompanying the promissory note to the set of documents in question.

4. OPERATIONS WITH DISCOUNTED PROMISSORY NOTES

4.1. The credit institutions shall be entitled to conduct the following operations with promissory notes they discount:

- 4.1.1. submit the promissory note for re-discounting under the legislation;
- 4.1.2. settle with its creditors through the promissory note;
- 4.1.3. alienate the promissory note;
- 4.1.4. pledge promissory note;
- 4.1.5. other operations not prohibited by the legislation.

5. PRUDENTIAL REQUIREMENTS

5.1. Promissory note discounting operations should comply with prudential norms (requirements) set by the CBA on regulation of credit risks and credit institutions should observe these norms (requirements).

5.2. Credit institutions should create special reserves on possible losses from promissory notes discount operations in compliance with the relevant normative acts of legal nature of the CBA.

6. FINAL PROVISIONS

6.1. These Regulations shall take effect from the date of approval.

6.2. From the date of enactment of these Regulations Items 16.2 and 16.5 of Statute on Circulation of Promissory notes dated 02.02.2000 adopted by the State

Committee for Securities under President of the Republic of Azerbaijan shall not apply to operations by credit institutions on promissory note discounting.

Annex #1 to Regulations on Discounting
Promissory Notes in Credit Institutions

**QUARTERLY (ANNUAL) REPORT OF OPERATIONS ON
DISCOUNTING PROMISSORY NOTES CONDUCTED BY DISCOUNT
INSTITUTIONS FOR _____**

Full name, legal address, bank requisites and TIN of discount institution

Number	Period	Total number of discounted promissory notes	Total amount of promissory notes (together with currency)	Blank serial and number, date of state registration, and registration number of promissory notes	Number of damaged and lost promissory notes	Number of paid promissory notes
1.						
2.						
3.						
4.						
5.						

Chairman of the Management Board _____

(First, middle and last name) (signature)

Chief accountant

(First, middle and last name) (signature)