

Approved  
The State Committee for Securities  
under the auspices of President of the  
Republic of Azerbaijan  
Resolution № 01/10-232  
26 August 2002

Approved  
by Resolution of the Management Board of  
the Central Bank of the Republic of  
Azerbaijan  
Protocol № 18

16 August 2002

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**Temporary Regulations  
on re-discounting of promissory notes by the Central  
Bank of the Republic of Azerbaijan**

(with amendments of 15.04.2010)

These Regulations govern rediscounting of ordinary promissory notes (hereinafter – promissory notes) by the Central Bank of the Republic of Azerbaijan (hereinafter – the CBA) in accordance with the Civil Code of the Republic of Azerbaijan, the Laws of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan and on Banks and Banking Activity, the Statute on the State Committee for Securities under President of the Republic of Azerbaijan (hereinafter – the SCS) and 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.

**1. General provisions**

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- 1.1. The CBA rediscounts promissory notes as a type of credit operations in line with the goals of the monetary policy it implements and determines the size of conducted operations at its own discretion.
- 1.2. The CBA establishes an official refinancing (discount) rate depending on the overall status of the money market and credit supply and demand and implements the refinancing (discount) policy to factor in banks' refinancing (discount) rates within the frames of the country's monetary management.
- 1.3. The CBA buys discounted promissory notes from commercial banks on rediscounting basis.
- 1.4. The following definitions are used for the purposes of these Regulations:
  - 1.4.1. **Promissory note** – a written debt obligation clearly developed under the legislation, entitling its holder (possessor of a promissory note) to unconditionally demand the amount specified on a promissory note (P/N) from a drawer, borrower or the person who undertook to pay the bill amount upon maturity;

- 1.4.2. **Ordinary promissory note** – security that expresses drawer’s obligation to unconditionally pay the amount specified on the P/N on demand or at any determinable future time to the P/N holder;
- 1.4.3. **Rediscounting of promissory notes** – premature purchase of P/Ns by the CBA from a qualified bank that discounted *promissory notes* by paying the P/N amount at a discount;
- 1.4.4. **Drawer (issuer)** – resident entities and organizations of the Republic of Azerbaijan that issue P/Ns;
- 1.4.5. **Bank-discounter** – a qualified bank that comply with mandatory economic norms set by the CBA and is registered with the SCS as a discounter organization. The bank-discounter discharges the duty of a domiciliation;
- 1.4.6. **Promissory note amount** (principal)- payable amount on a P/N;
- 1.4.7. **Discount** – amount bought by the CBA when discounting P/Ns;
- 1.4.8. **Endorsement** – transfers all rights arising out of a P/N from the last to the next holder;
- 1.4.9. **Endorser** – person who makes transfer writing (endorsement) on a bill;
- 1.4.10. **Endorsee** – person who receives a P/N on the basis of endorsement;
- 1.4.11. **Allonge** – slip affixed to the P/N to write, and document avals, acceptances etc., in the event there is no place to make notes;
- 1.4.12. **Aval** – P/N guarantee of a person who undertook responsibilities of a person who signed the P/N, or other persons liable on the P/N to meet their liabilities;
- 1.4.13. **Domiciliation** – appointment of any third party as a payer on the P/N;
- 1.4.14. **Protest of the bill** – official approval of facts of rejection from acceptance or payment by an authorized public authority (notary);
- 1.5. When the CBA receives P/Ns for re-discounting, it deducts a certain discount from the P/N amount in line with its official refinancing (discount) rate. The deducted discount amount is calculated on the basis of the following formula:

$$D = K \times \left( \frac{T \times F}{360 \times 100} \right)$$

where:

*D* – discount amount deducted from P/N amount;

*K* – P/N amount;

*T* – period from rediscounting of P/N until its maturity;

*F* – The CBA’s official refinancing rate.

## 2. Procedure for rediscounting of P/Ns

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- 2.1. P/Ns are rediscounted on the basis of an agreement signed between the CBA and the Bank-discounter in writing. (Annex №1).
- 2.2. The Bank discounter willing to rediscount P/Ns submits an envelope with the following documents to the CBA:

- 2.2.1. an application to accept the P/N for discounting (Annex № 2);
- 2.2.2. original of P/N (in case of allonge, attached with it);
- 2.2.3. financial statements of the drawer for recent 2 years;
- 2.2.4. excerpt from state registry of P/Ns.
- 2.3. When receiving the document, a person from the CBA's dedicated unit responsible for rediscounting of P/Ns (hereinafter – the responsible person) fills in the registry of acceptance of documents (Annex №3).
- 2.4. Requirements set by the CBA on the content of P/Ns accepted for rediscounting are determined in Chapter 3 herein.
- 2.5. The CBA takes a decision on rediscounting of P/Ns or rejection to rediscount P/Ns within 5 (five) business days after it receives the envelope with documents whose list is specified herein.
- 2.6. The CBA notifies the bank when it takes a decision on rediscounting or rejection to rediscount P/Ns.
- 2.7. If the answer to the issue of rediscounting of the P/N is positive, the bank documents the endorsement in favor of the CBA and delivers the P/N to the responsible person. Terms on release of the endorser from payment responsibility on P/N are not allowed to be included to the endorsement made in favor of the CBA.
- 2.8. The Chairman of the Management Board of the bank discounter is the only person entitled to make the endorsement official in favor of the CBA.
- 2.9. After receiving the original P/N with the endorsement in its favor the CBA transfers the P/N amount to the bank less the discount, postal and other expenses no later than the next business day.
- 2.10. According to the agreement signed by the CAB and the bank-discounter, the bank that delivered the P/N for rediscounting should pay the P/N amount to the CBA 2 business days prior to maturity of that P/N.

### **3. Requirements on P/Ns received for rediscounting**

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- 3.1. P/Ns accepted by the CBA for rediscounting should meet the following requirements:
  - 3.1.1. maturity of P/Ns should not be less than 1 month and more than 1 year;
  - 3.1.2. P/N amount should be indicated in the Azerbaijani manat in Azerbaijani;
  - 3.1.3. P/N issuers should be residents of the Republic of Azerbaijan with stable financial standing;
  - 3.1.4. a determinable date should be indicated as maturity, P/Ns with maturities 'on demand', 'within a certain timeframe upon submission', or 'within a certain timeframe upon development' are not received for rediscounting;
  - 3.1.5. P/N should not contain a term on calculation of interest;
  - 3.1.6. a commercial bank discounted the P/N should be indicated as a payment place (note on domiciliation). The instruction on P/N on 'make payment to the bank

(name of the bank discounter) located at \_\_\_\_\_' means a note on the domiciliation;

3.1.7. no restrictive note is allowed on the P/N;

3.1.8. only original P/N is needed, copies are not received for rediscounting;

3.1.9. P/Ns should be printed and state registered under the requirements of the Statute on 'Circulation of Promissory Notes in the Republic of Azerbaijan' (hereinafter – the Statute) approved by the SCS.

3.2. The CBA may make a condition before the bank-discounter to have the P/N submitted for rediscounting to be availed by another commercial bank.

3.3. The CBA may reject to accept bank's P/Ns for discounting when:

3.3.1. the period until maturity is less than a month;

3.3.2. it is impossible to make a univocal conclusion from the P/N content on payment place and solvency of liable persons, or there are other defects in the P/N content that preclude enjoying rights on the P/N;

3.3.3. the P/N fails to meet the requirements under Item 3.1. herein.

#### **4. Registration promissory notes accepted for rediscounting**

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4.1.

The CBA maintains a dedicated reconciliation ledger for the registration of P/Ns accepted for rediscounting, which includes the number, amount and currency of P/Ns received for rediscounting per customer, the number of payers on that P/N and P/Ns paid by him/her.

4.2. P/Ns are classified under the following criteria in the CBA's lending portfolio:

- endorser (name and necessary requisites);
- promissory note payer;
- payment place;
- maturity (months and days);
- other necessary parameters.

#### **5. Dissemination of information on rediscounting of promissory notes**

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5.1.

The CBA disseminates information on rediscounting of promissory notes, including information on a rediscounting rate by means of mass media, over Internet and its information bulletins.

#### **6. Final provisions**

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6.1. These Regulations take effect from the day of coordination with the SCS.

to the 'Temporary Regulations on rediscounting of promissory notes by the Central Bank of the Republic of Azerbaijan' approved by Resolution of the Management Board of the Central Bank of the Republic of Azerbaijan dated \_\_\_\_\_ 2002 (Protocol# \_\_\_\_\_) and approved by the State Committee for Securities under President of the Republic of Azerbaijan on \_\_\_\_\_ 2002 (Resolution # \_\_\_\_\_)

## Contract on rediscounting of promissory notes

Baku city

« \_\_\_\_ » « \_\_\_\_\_ » 200 \_\_\_\_

The Central Bank of the Republic of Azerbaijan functioning under the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan (hereinafter – the CBA) represented by the member of the Management Board, Executive Director \_\_\_\_\_ from one side and \_\_\_\_\_ functioning under its Charter (bank's name, hereinafter – the Bank) represented by the Chairman of the Management Board \_\_\_\_\_ from the other side (hereinafter – the parties) have concluded the present Contract under the following terms and conditions.

### 1. General provisions

The following definitions are used for the purposes of this Contract:

- rediscount of promissory notes** - premature purchase of promissory notes from a qualified bank that discounted *promissory notes* (P/Ns) by the CBA by paying the promissory note amount at a discount;
- Discount** – amount bought by the CBA when discounting P/Ns;
- P/N price** – P/N amount less discount;
- P/N amount** - payable amount on a P/N;
- Protest of the bill** - official approval of facts of rejection from acceptance or payment by an authorized public authority (notary);
- Endorsement – transfers all rights arising out of a P/N from the last to the next holder;

### 2. Subject of the Contract

- 2.1. The CBA buys P/Ns of the Bank with the registration number \_\_\_\_\_ within the validity period of this Contract on provision that it will re-procure them for rediscounting. During this transaction the Bank sells the CBA P/Ns at their value and undertakes to buy them back in the amount of P/Ns.
- 2.2. The CBA buys the Bank's promissory notes from \_\_\_\_\_ for \_\_\_\_\_ days in the amount of AZN \_\_\_\_\_.

2.3. The Bank undertakes to buy the promissory notes back on \_\_\_\_ \_\_\_\_\_  
\_\_\_\_\_ to the full amount.

### **3. Rights and obligations of the parties**

- 3.1. After the CBA buys the original of the P/N with the endorsement in its favor it transfers the amount of the P/Ns to the bank's correspondent account less discount no later than the next business day.
- 3.2. The CBA is entitled to unconditionally write-off the funds equal to the P/N amount from the correspondent account of the Bank that discounts the bill in question after first priority payments are made when the rediscounted bill matures.
- 3.3. After the P/N amount is paid, the CBA returns the original bills to the Bank.
- 3.4. If the Bank does not have enough funds in its correspondent account with the CBA to pay for the amount of P/Ns as of the repurchase date, the CBA protests the bill by delivering claims to the drawer.
- 3.5. The Bank is entitled to prematurely buy the bills back. If the Bank initiates premature buy back of the bills, the CBA pays no discount to the Bank.

### **4. Validity of the contract**

- 4.1. The Contract takes effect from the day of signing by the parties.
- 4.2. The Contract shall be deemed terminated if the parties meet their obligations arising over the validity of the contract.
- 4.3. The Contract shall be drawn in two copies to be kept by each of the parties.

### **5. Settlement of disputes**

- 5.1. The Parties shall take all necessary actions to settle any disputes arising from the present Contract.
- 5.2. In case the Parties fail to reach agreement, disputes will be dealt with by the court under the legislation.

### **6. Legal addresses of the parties**

The Central Bank of the Republic of Azerbaijan  
R. Behbudov Str.90, Baku, Azerbaijan

The Bank

### **7. Parties' signatures**

The Central Bank

Bank

Member of the Management Board,  
Executive Director

Chairman of the Management Board

\_\_\_\_\_  
M.Y

\_\_\_\_\_  
M.Y.

**Annex № 2**

to the 'Temporary Regulations on rediscounting of promissory notes by the Central Bank of the Republic of Azerbaijan' approved by Resolution of the Management Board of the Central Bank of the Republic of Azerbaijan dated \_\_\_\_\_ 2002 (Protocol# \_\_\_\_\_) and approved by the State Committee for Securities under President of the Republic of Azerbaijan on \_\_\_\_\_ 2002 (Resolution # \_\_\_\_\_)

**Application  
on acceptance of a promissory note for rediscounting**

\_\_\_\_\_ *(the name of the bank that delivers and rediscounts the bill)*

is asking to rediscount bills amounting to \_\_\_\_\_ *(amount in numbers and letters)*

\_\_\_\_\_ *(name and residence/domicile of the drawer)*

Endorsers

\_\_\_\_\_ *(name and residence/domicile of the endorsers)*

Other persons liable on the promissory note

\_\_\_\_\_ *(name and residence/domicile of other persons liable on the promissory note)*

Maturity \_\_\_\_\_

Place of payment \_\_\_\_\_

Conditions in the content of the bill \_\_\_\_\_

Currency of the bill \_\_\_\_\_

Applicant

\_\_\_\_\_ (Signature)

M. Y.

