

“Approved”

by the Order № 01/10-232
of the State Committee for Securities
under the President of the Republic of
Azerbaijan dated of 26 August 2002

_____ H.Babayev

“Approved”

by the Resolution of the Management
Board of the Central Bank of the Republic
of Azerbaijan dated of 16 August 2002,
Minutes № 18

_____ E.Rustamov

**Temporary Regulations on rediscount of promissory notes by the Central Bank
of the Republic of Azerbaijan**

(as amended on 15 April 2010)

These Regulations shall regulate the rediscount of promissory notes (hereinafter ‘promissory notes’) by the Central Bank of the Republic of Azerbaijan (hereinafter the ‘Central Bank’) 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”, “On Banks and Banking Activity”, Regulations on the State Committee for Securities under the President of the Republic of Azerbaijan (hereinafter the ‘SCS’) and the Regulations on circulation of promissory notes in the Republic of Azerbaijan (hereinafter the ‘Regulations’) approved by the State Committee for Securities under the President of the Republic of Azerbaijan.

1. General provisions

- 1.1. The Central Bank shall carry out the rediscount of promissory notes as a type of credit operations in accordance with the objectives of its monetary policy and independently determine the volume of transactions.
- 1.2. The Central Bank shall set the official discount rate depending on the general situation in the money market, supply and demand for loans. The Central Bank shall implement the discounting policy in order to influence the discount rates of banks within the framework of the state monetary policy.
- 1.3. The Central Bank shall repurchase promissory notes already discounted by commercial banks on the condition of rediscount.
- 1.4. The following terms shall be used for the purposes of these Regulations:
 - 1.4.1. **Promissory note** - is a security, clearly drawn up in the form approved by the legislation, which reflects a written promise and entitles the holder

(promissory note holder) the right to demand unconditionally the certain amount specified in the promissory note from the issuer, debtor or the person who undertook to pay the promissory note amount;

- 1.4.2. **Simple (solo) promissory note** - is a security that expresses the obligation undertaken by the drawer to unconditionally pay the amount specified in the promissory note to the holder of the promissory note when required or at another specified time;
- 1.4.3. **Rediscount of promissory notes** – means exchanging securities by the Central Bank against a price that already been discounted by a commercial bank before the maturity date;
- 1.4.4. **Drawer (issuer)** - enterprises and organizations writing promissory notes that are residents of the Republic of Azerbaijan;
- 1.4.5. **Discounting bank** - is an authorized bank that complies with the mandatory economic standards set by the Central Bank and registered as an accounting organization with the SCS. The discounting bank acts as a domicile;
- 1.4.6. **Promissory note amount** (nominal value of a promissory note) - a sum written on the promissory note and payable;
- 1.4.7. **Discount** – is an amount received by accounting organizations during the discounting of promissory notes;
- 1.4.8. **Endorsement** - a transfer note in a promissory note that transfers all rights arising from the promissory note from the last holder of the promissory note to the next holder;
- 1.4.9. **Endorser** - a person who writes a transfer note (endorsement);
- 1.4.10. **Endorsee** – a person to whom a promissory note is transferred on the basis of an endorsement;
- 1.4.11. **Allonge** – a slip of paper attached to the promissory note for writing notes, formalizing avals, acceptances and etc.;
- 1.4.12. **Aval** - is a promissory note surety of the person who assumes responsibility for the fulfillment of the obligations of the person signed the promissory note or other persons liable for the promissory note;
- 1.4.13. **Domiciliation** – is an appointment of any third person as a payer on the promissory note;

1.4.14. **Protest of a bill** - official confirmation of the facts of refusal of acceptance or payment by the authorized state body (notary);

- 1.5. After the promissory notes are accepted for rediscounting by the Central Bank, a certain interest shall be deducted from the promissory note amount in accordance with the Central Bank's official discount rate. The interest deducted during discounting shall be calculated in the following order.

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

hence:

D – discount amount deducted from the promissory note amount;

K - promissory note amount;

T - period from the rediscounting date to the payment date;

F – discount rate of the Central Bank.

2. Procedure for rediscounting of promissory notes

- 2.1. Rediscount of promissory notes shall be carried out on the basis of a written agreement entered into between the Central Bank and the discounting bank (Appendix No.1).
- 2.2. The discounting bank wishing to rediscount the promissory note shall submit to the Central Bank a package of documents consisting of the following:
- 2.2.1. an application to rediscount the promissory note (Appendix No. 2);
 - 2.2.2. original copy of the promissory note (with allonge, if any);
 - 2.2.3. documents of the issuer's financial statements for the last two years;
 - 2.2.4. extract from the state register of promissory notes.
- 2.3. When receiving the documents, the employee of the authorized department of the Central Bank responsible for rediscounting of promissory notes (hereinafter - the responsible officer) fills in the register of receipt of documents (Appendix No. 3).
- 2.4. The requirements for the content of promissory notes rediscounted by the Central Bank shall be defined in Chapter 3 of these Regulations.

- 2.5. The decision on rediscount of the promissory note or its rejection shall be made by the Central Bank within 5 working days from the date of receipt of the complete envelope of documents specified in these Regulations.
- 2.6. The Central Bank shall inform the bank when it decides to rediscount or reject the promissory note.
- 2.7. If the issue of rediscount of the promissory note is resolved positively, the bank shall issue an endorsement in favor of the Central Bank and present the promissory note to the responsible person. The endorsement in favor of the Central Bank shall not include conditions that release the endorser from liability for payment on the promissory note.
- 2.8. Only the Chairman of the Management Board of the discounting bank shall have the authority to issue an endorsement in favor of the Central Bank.
- 2.9. After receiving the original promissory note with an endorsement in favor of the Central Bank, the Central Bank shall transfer the amount of the promissory note in favor of the bank no later than the next business day, minus the discount, postage and other expenses.
- 2.10. According to the agreement concluded between the Central Bank and the discounting bank, the bank that rediscounted the promissory note shall pay the amount of the promissory note to the Central Bank two working days prior to the date of payment of the promissory note.

3. Requirements on rediscounted promissory notes

- 3.1. Promissory notes rediscounted by the Central Bank shall meet the following requirements:
 - 3.1.1. the maturity of promissory notes shall not be less than one month and not more than one year;
 - 3.1.2. the amount of the promissory note shall be indicated in Azerbaijani manats and drawn up in the Azerbaijani language;
 - 3.1.3. issuers of promissory notes shall be residents of the Republic of Azerbaijan with a stable financial position;
 - 3.1.4. the maturity of the promissory note shall be a certain day. Promissory notes shall not accepted to rediscount with the maturity periods “as presented”, “within a certain period of time after presentation”, “within a certain period of time after drafting”;
 - 3.1.5. a promissory note shall not contain a condition for calculating interest;

- 3.1.6. the place where a promissory note is to be paid (domicile) shall be indicated as the commercial bank that discounted the promissory note (note on domiciliation). The instruction in the promissory note 'to make the payment at _____ (name of the bank that discounts) located at _____' is a note on domicile;
- 3.1.7. the promissory note shall not contain any restrictive notes;
- 3.1.8. the promissory note shall be original. Copies shall not be rediscounted;
- 3.1.9. promissory notes shall be duly printed and entered in the state register in accordance with the requirements of the Regulations on circulation of promissory notes in the Republic of Azerbaijan (hereinafter 'the Regulations') approved by the SCS.
- 3.2. The Central Bank may stipulate to the discounting bank that the promissory note submitted for rediscounting be avalized by another commercial bank.
- 3.3. The Central Bank may refuse to rediscount the bank's promissory notes in the following cases:
- 3.3.1. when the period of maturity on a promissory note is less than one month;
- 3.3.2. when it is not possible to draw an unambiguous conclusion from the content of the promissory note on its place of payment, solvency of persons holding positions on the promissory note, or if there are other shortcomings in the text of the promissory note that do not allow the exercise of rights on the promissory note;
- 3.3.3. when a promissory note does not meet the requirements specified in paragraph 3.1. of these Regulations.

4. Registration of rediscounted promissory notes

- 4.1. The Central Bank shall maintain a special control book for the registration of rediscounted promissory notes. The control book shall include the number, amount and currency of the rediscounted promissory notes for each client, the payer and the amount of promissory notes paid by that payer.
- 4.2. Promissory notes shall be classified according to the following criteria in the loan portfolio of the Central Bank:
- ☐ endorser (name and necessary details);

- ☐ payer of the promissory note;
- ☐ place of payment (domicile);
- ☐ maturity periods (months and days);
- ☐ other necessary parameters.

5. Dissemination of information on promissory note rediscount operations

- 5.1 The Central Bank shall disseminate information on promissory note rediscount operations, including rediscount rate, through mass media, internet and its own newsletters.

6. Closing provisions

- 6.1. These Regulations shall enter into force on the day agreed by the SCS.

Appendix No. 1
to the Temporary Regulations
on rediscount of promissory notes
by the Central Bank of the Republic of Azerbaijan
approved by the Resolution of the Management Board
of the Central Bank of the Republic of Azerbaijan
dated of _____ 2002 (Minutes No. ____) and
by the State Committee for Securities
under the President of the Republic of Azerbaijan
dated of _____ (Order No. ____)

Agreement on rediscount of promissory notes

Baku city

‘ ____ ’ ‘ _____ ’ 200__ -

The Central Bank of the Republic of Azerbaijan acting under the Law of the Republic of Azerbaijan on the Central Bank of the Republic of Azerbaijan (hereinafter the ‘Central Bank’) represented by the member of the Management Board of the Central Bank, General Director _____ on one hand and _____ (name of the bank, hereinafter the ‘Bank’) acting under its Charter, represented by the Chairman of the Management Board _____ on the other hand (hereinafter the ‘Parties’) have entered into this Agreement on the following conditions.

1. General provisions

1.1. The following terms shall be used for the purposes of these Regulations:

- ☐ **rediscount of promissory notes** – means exchanging securities by the Central Bank against a price that already been discounted by a commercial bank before the maturity date;
- ☐ **discount** - is an amount received by the Central Bank during the discounting of promissory notes;
- ☐ **promissory note price** – is a promissory note amount less the discount;
- ☐ **promissory note amount** (nominal value of a promissory note) - a sum written on the promissory note and payable;
- ☐ **protest of a bill** - official confirmation of the facts of refusal of acceptance or payment by the authorized state body (notary);
- ☐ **endorsement** - a transfer note in a promissory note that transfers all rights arising from the promissory note from the last holder of the promissory note to the next holder;

2. Subject of the Agreement

- 2.1. During the term of this Agreement, the Central Bank shall rediscount the Bank's promissory notes with registration number _____ on the condition of repurchase. In this transaction, the Bank shall sell promissory notes to the Central Bank at the price of the promissory note and undertake to repurchase those promissory notes in the amount of the promissory note.
- 2.2. The Central Bank shall receive the Bank's promissory notes in the amount of _____ manats for a period of ____ days from the date of '____' _____.
- 2.3. The Bank shall undertake to repurchase the promissory notes by paying them in full on _____.

3. Rights and obligations of the Parties

- 3.1. After receiving the original promissory note with an endorsement in favor of the Central Bank, the Central Bank shall transfer the amount of the promissory note to the Bank's correspondent account no later than the next business day after deducting the discount.
- 3.2. The Central Bank shall have the right to unconditionally write-off funds equal to the amount of the promissory note from the correspondent account of the bank that discounted the promissory note after the first payments are made when the rediscounted promissory note reaches maturity.
- 3.3. After the amount of the promissory notes is paid, the original promissory notes shall be returned to the Bank by the Central Bank.
- 3.4. If there are not enough funds in the correspondent account of the Central Bank to pay the amount of the promissory note on the date of repurchase, the Central Bank shall protest of the promissory note by submitting demands to the promissory note issuer.
- 3.5. The bank shall have the right to repurchase the promissory note ahead of time. If the early repurchase of promissory notes is initiated by the Bank, the Central Bank shall not pay any discount to the Bank.

4. The term of the Agreement

- 4.1. The agreement shall come into force from the date of its signing by the Parties.
- 4.2. The agreement shall be deemed terminated if the parties fulfill their obligations to each other during the term of the agreement.
- 4.3. The agreement shall be drawn up in two copies and one copy shall be kept by each of the parties.

5. Settlement of disputes

- 5.1. In the event of disagreement during the implementation of this Agreement, the Parties shall undertake to take all necessary measures to resolve them.
- 5.2. If it is not possible to reach a mutual agreement of the Parties, the disputes shall be settled in court in accordance with the procedure established by law.

6. Legal addresses of the Parties

Central Bank
32 R. Behbudov Str., Baku city
Republic of Azerbaijan

Bank

7. Approval of the Parties

Central Bank	Bank
Member of the Management Board, General Director	Chairman of the Management Board
L.S	L.S.

Appendix No. 2
to the Temporary Regulations
on rediscount of promissory notes
by the Central Bank of the Republic of Azerbaijan
approved by the Resolution of the Management Board
of the Central Bank of the Republic of Azerbaijan
dated of _____ 2002 (Minutes No. ____) and
by the State Committee for Securities
under the President of the Republic of Azerbaijan
dated of _____ (Order No. ____)

Application for rediscount of the promissory note

(name of the discounting bank)

(amount of the promissory note in figures and in writing)
hereby requests to rediscount the promissory note in the amount _____

(name of the issuer and place of residence/ location)
Endorcers

(names of endorcers and places of residence/locations)
Other persons having obligations on the promissory note

(places of residence /locations of other persons having obligations
on the promissory note)

Maturity period _____

Place of payment _____

Conditions entered to the text of the promissory note _____

Promissory note currency _____

Applicant

_____ (signature)

L.S.

to the Temporary Regulations
on rediscount of promissory notes
by the Central Bank of the Republic of Azerbaijan
approved by the Resolution of the Management Board
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dated of _____ 2002 (Minutes No. ____) and
by the State Committee for Securities
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