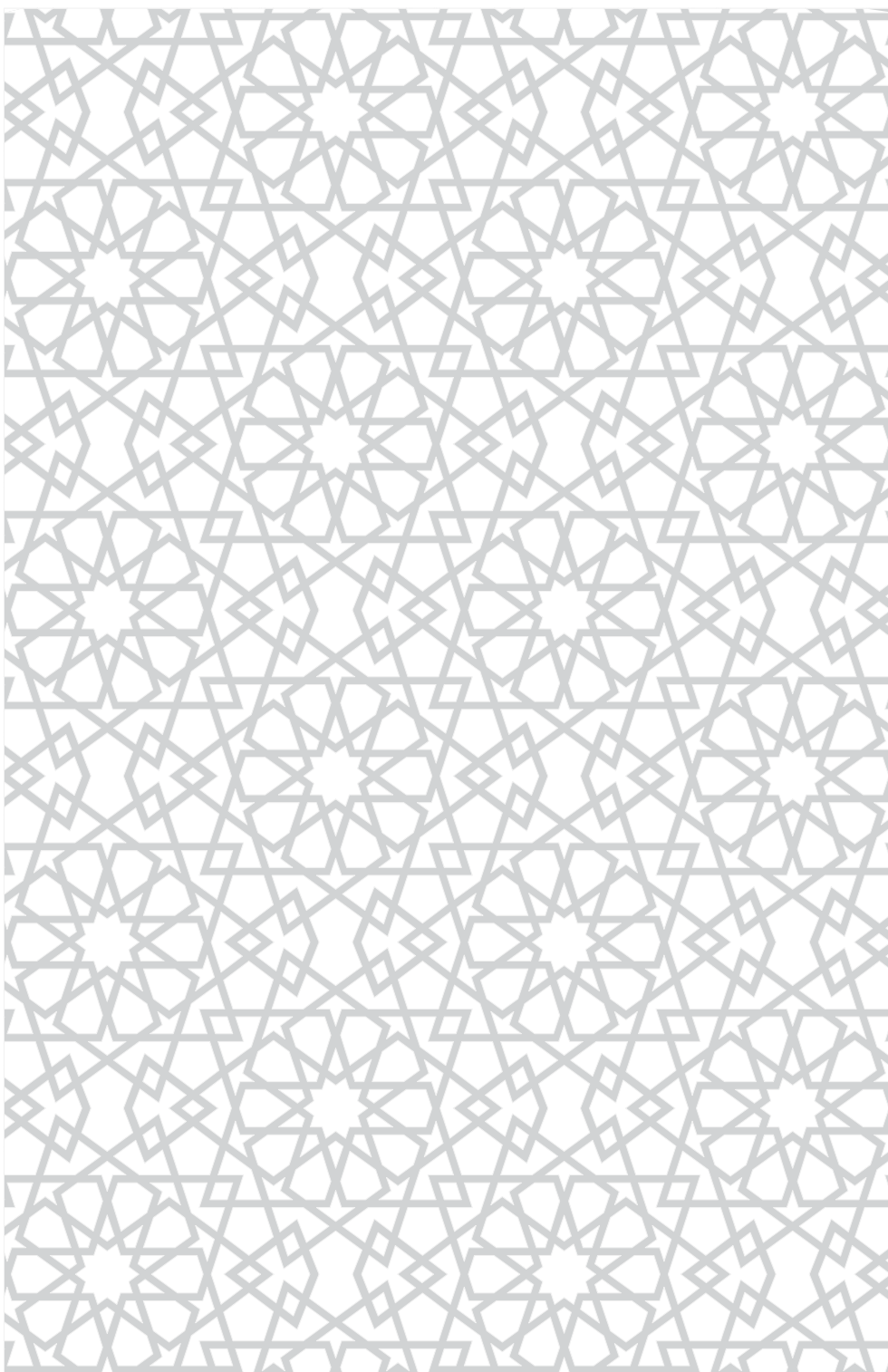


Shari'ah Standard No. (16)

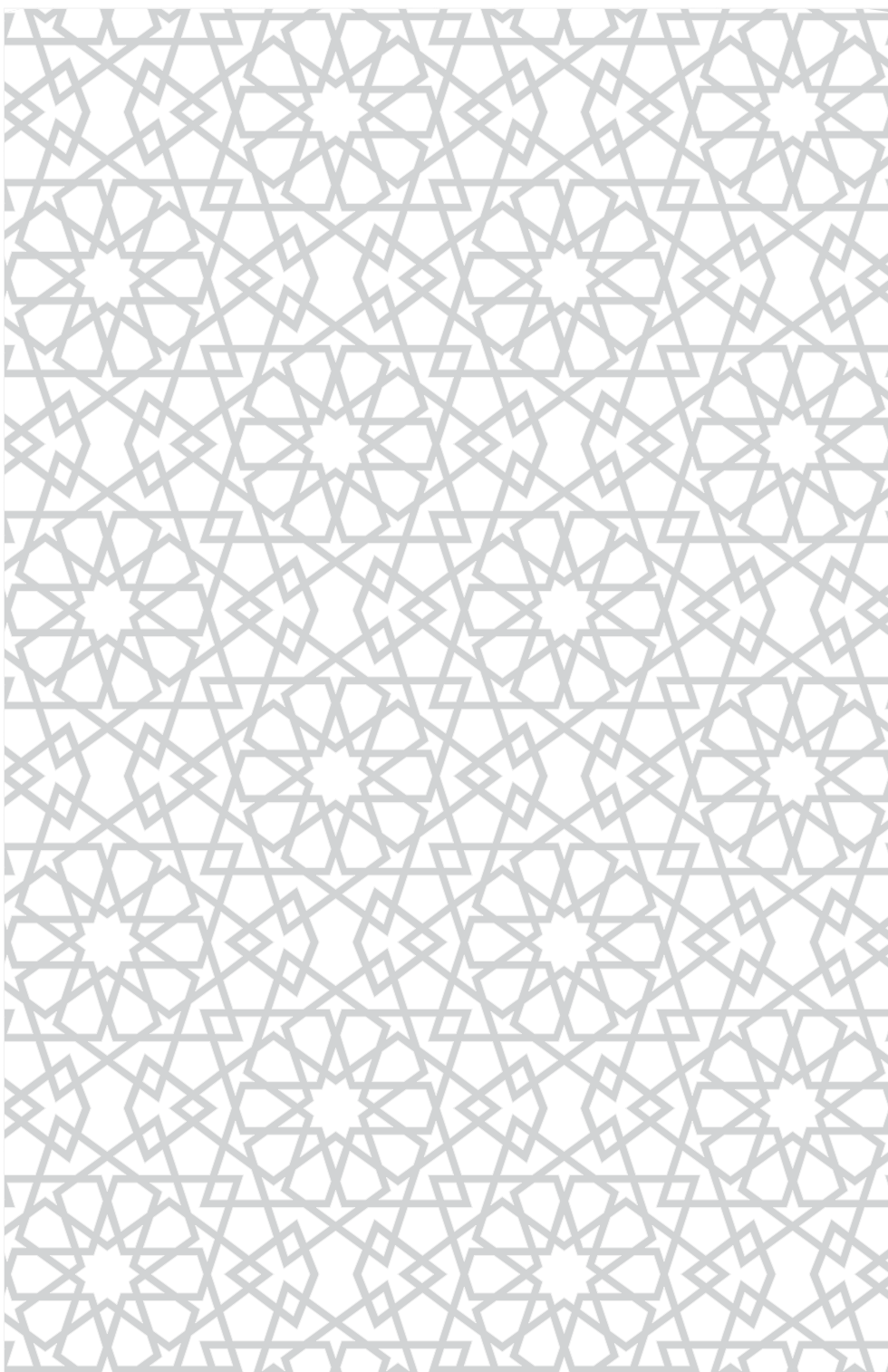
Commercial Papers

(Revised Standard)



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IN THE NAME OF ALLAH, THE ALL-MERCIFUL, THE MOST MERCIFUL

All praise be to Allah, the Lord of all the worlds, and blessings and peace be upon our master, Muhammad, and his household and all his companions

Preface

The purpose of this standard is to elaborate the rules pertaining to commercial paper, the types permitted and those not permitted, the rules for dealing in commercial paper, its collection, discounting, possession and the acceptance of the obligation to pay, as well as the elaboration of the Shari'ah regulations for Islamic financial Institutions (Institution/Institutions)⁽¹⁾ for dealing in commercial paper.

(1) The word (Institution/Institutions) is used here to refer, in short, to Islamic financial institutions including Islamic Banks.

Statement of the Standard

1. Scope of the Standard

This standard covers commercial papers to which the Geneva Uniform Convention on the Law of Commercial Papers,⁽²⁾ confined itself. These are bill of exchange, promissory note and cheque. This standard covers dealings in such commercial papers insofar as they conform to the rules and principles of the Shari'ah. The standard does not cover anything that may possess the attributes of commercial paper other than the three types named above.

2. Definition and Shari'ah Characterisation of Commercial Papers

- 2/1 Bill of exchange: A written, signed, and unconditional order from a person to another person to pay a certain sum of money at sight or at a particular or determinable date to a third person or to the order of that third person or to the bearer of that order.
- 2/2 Promissory note: A certificate whereby by the issuer (a debtor) promises to pay a certain amount of money at sight or at a particular or determinable date to another person (a beneficiary/creditor). In Shari'ah characterisation, it is considered a certificate of debt.
- 2/3 Cheque: A certificate that is issued to a particular person, containing an order issued by a person (the drawer) to another person (the drawee) to pay a certain sum of money to a third person (the beneficiary) at sight. In Shari'ah characterisation, it is considered a restricted Hawalah if the drawer is a debtor to the drawee. Otherwise, it is considered an unrestricted Hawalah with respect to the drawer.

(2) Issued on 1349/1350 A.H., corresponding to 1930/1931 A.D., and adopted by a large number of countries.

3. Rules for Dealing in Commercial Papers

- 3/1 It is permissible to undertake transactions in commercial paper of the three types (bill of exchange, promissory note and cheque) on the condition that it does not amount to the contravention of the Shari'ah, like Riba or delay that is legally prohibited in accordance with the details provided in the following paragraphs.
- 3/2 It is not permissible to use a bill of exchange or promissory note in transactions that require possession (of the counter-values), like deeming the two types of commercial paper as counter-values in the contract of *Sarf* (currency exchange) or as the counter-value for the capital (*Ras al-Mal*) in the contract of Salam.
- 3/3 It is permitted to use a cheque in the following types of transactions and situations:
- a) A cheque, where the owner has a balance, when drawn by the client against the bank or by the bank against another bank or against itself or against one of its branches.
 - b) A cheque, where the owner has no balance, when drawn by the client against a bank or is drawn by the bank against another bank or against itself or against one of its branches (the so-called overdraft). From Shari'ah perspective, it is a loan (Qard) which is permissible if it is void of Riba.
 - c) A crossed cheque that binds the payee bank to fulfil its conditions.
 - d) An account payee cheque that binds payee bank to fulfil its conditions by crediting the amount of the cheque to the beneficiary's account.
 - e) Travellers' cheques. It is permissible for the institution issuing it to take commission in lieu of intermediation in such issuance or at the time of its payment provided this does not include Riba.

4. Endorsement

All forms of endorsements are binding with respect to their legal effects provided that the endorsements fulfil the legal conditions and regulations determined for them.

5. Collection of the Amount of Commercial Papers

The collection of the amount of commercial papers is considered an agency with the client appointing the institution as an agent to collect the value of the paper on his behalf. The institution is entitled to commission that is agreed upon between the client and the institution. In the absence of an agreement between them, the practice prevalent among institutions is to be acted upon.

6. Discounting of Commercial Papers

- 6/1 It is not permissible to discount commercial papers, but it is permitted to pay an amount that is less than the value of the paper to the first beneficiary prior to the date of maturity.
- 6/2 It is not permissible to sell commercial paper that has not become due for an amount similar to its value (*Riba al-Nasi`ah*) nor for an amount that is more than its value (*Riba al-Nasi`ah* plus *Riba al-Fadl*).
- 6/3 It is permissible to the beneficiary to treat commercial paper that is not yet due as price for ascertained goods or usufruct, but not those that are sold by description as a liability with the condition of actual or legal delivery of goods or usufructuary asset (commodity-based discounting of debts).
- 6/4 The holder of commercial paper is permitted to purchase goods to be delivered later (on the date of maturity of the paper), and after the debt is established as a liability. The holder of the paper transfers the claim of his creditor to his debtor through this paper. In such a case, the transaction amounts to *Hawalah*.

7. Taking Possession of Commercial Papers

- 7/1 The receipt of a cheque requiring prompt payment, if it is a banker's cheque or a certified cheque or one that is legally deemed a certified cheques whereby a certain amount is mandatorily maintained in the drawer's account, being drawn among banks or among banks and their branches, constitutes constructive possession of the amount written on it, and it is on this basis that it is permissible to use the

cheque in transactions that stipulate possession such as the exchange of currencies, the purchase of gold or silver with the cheque as well as treating the cheque as capital (*Ras al-Mal*) of Salam.

- 7/2 The receipt of a cheque that is to be paid promptly, if it is not a banker's cheque or a certified cheque or one that is legally deemed a certified cheque, cannot be considered constructive possession of its amount, and in such a case, it is not permitted to use it for transactions for which possession is stipulated.
- 7/3 It is permitted to use cheques of bank transfers for transactions when the amount intended to be transferred is in the same currency in which payment is to be made, however, where the currency is different from that in which payment is to be made, it is necessary to first apply the process of conversion between the two currencies, deeming constructive possession to be sufficient, and then undertake the transfer. It is a form combining currency exchange (*Sarf*) and Hawalah.

8. Acceptance for Payment of the Value of Commercial Papers

- 8/1 Acceptance for paying the value of commercial paper on the part of the drawee is considered an undertaking and an obligation to pay the debt represented by the commercial paper to the holder on the date of maturity. This undertaking and obligation must be fulfilled according to the Shari'ah.
- 8/2 All parties whose signatures appear on the commercial paper including the drawer, the endorser and the guarantor are jointly responsible to pay to the holder the value of the paper in accordance with rules of liability, thus, the holder is entitled to have recourse to them severally or jointly after the refusal of the drawer (or the issuer in case of a promissory note) to pay.
- 8/3 Tangible security stipulated by the holder of commercial paper to ensure the securing of his right will be deemed a Mortgage (*Rahn*) and will be governed by the rules of Mortgage (*Rahn*).

9. Date of Issuance of the Standard

This Shari'ah Standard was issued on 7 Rabi' I, 1424 A.H., corresponding to 8 May 2003 A.D.

Adoption of the Standard

The Shari'ah Standard on Commercial Papers was adopted by the Shari'ah Board in its meeting No. (10) held during the period of 2-7 Rabi' I, 1424 A.H., corresponding to 3-8 May 2003 A.D.

Appendix (A)

Brief History of the Preparation of the Standard

In its meeting No. (7) held in Makkah Al-Mukarramah during the period of 9-13 Ramadan 1422 A.H., corresponding to 24-28 November 2001 A.D., the Shari'ah Board decided to issue the Shari'ah standard for Commercial Papers and to appoint a Shari'ah consultant for the preparation of the exposure draft of the Shari'ah standard for commercial papers.

On Saturday 14 Shawwal 1422 A.H., corresponding to 29 December 2001 A.D., a Shari'ah consultant was commissioned to prepare a juristic study and an exposure draft on the Shari'ah standards for commercial papers.

In its meeting held in the Kingdom of Bahrain on 4-5 Safar 1423 A.H., corresponding to 17-18 April 2002 A.D., the Shari'ah Standard Committee discussed the exposure draft of the Shari'ah standard on commercial papers and asked the consultant to make necessary amendments to reflect the comments and observations made by the members of the Committee. The Committee discussed the exposure draft of the standard in its meeting held in the Kingdom of Bahrain on 6-7 Rabi' II, 1423 A.H., corresponding to 17-18 June 2002 A.D., and introduced necessary amendments as per observations and comments of the members.

The exposure draft of the standard was also discussed by the Committee in its meeting held in Amman, the Hashemite Kingdom of Jordan on 17 Rabi' II, 1423 A.H., corresponding to 28 June 2002 A.D., and further amendments were incorporated in the standard.

The revised exposure draft of the Shari'ah standard was presented to the Shari'ah Board in its 9th meeting held in Makkah Al-Mukarramah during the period of 11-16 Ramadan 1423 A.H., corresponding to 16-21 November 2002 AD. The Shari'ah Board made further amendments to the

exposure draft of the standard and decided that it be sent to specialists and interested parties in order to obtain their comments in preparation for its discussion in a listening session.

A public hearing was held in Bahrain on 18 Dhul-Hajjah 1423 A.H., corresponding to 19 February 2003 A.D. The public hearing was attended by more than thirty participants representing central banks, institutions, accounting firms, Shari'ah scholars, academics and others interested in the field. The members of the Shari'ah Standards Committees (1) and (2) responded to the written comments that were sent prior to the public hearing as well as to the oral comments that were expressed in the public hearing.

The Shari'ah Standards Committees (1) and (2) held a joint meeting on 2 Muharram 1424 A.H., corresponding to 5 March 2003 A.D., to discuss the comments made during the public hearing as well as comments received in writing. The two Committees made the amendments considered necessary.

The Shari'ah Board in its meeting No. (10) held in Al-Madinah Al-Munawwarah during the period of 2-7 Rabi' I, 1424 A.H., corresponding to 3-8 May 2003 A.D., discussed the amendments made by the Shari'ah Standards Committee and made amendments considered suitable. The Shari'ah Board unanimously adopted some of the items, while other items were adopted by a predominant majority vote, as recorded in the minutes of the meetings of the Shari'ah Board.

The Shari'ah Standards Review Committee reviewed the standard in its meeting held on Rabi' II, 1433 A.H., corresponding to March 2012 A.D., in the State of Qatar, and proposed after deliberation a set of amendments (additions, deletions, and rephrasing) as deemed necessary, and then submitted the proposed amendments to the Shari'ah Board for approval as it deemed necessary.

In its meeting No. (41) held in Al-Madinah Al-Munawwarah, Kingdom of Saudi Arabia during the period of 27-29 Sha'ban 1436 A.H., corresponding to 14-16 June 2015 A.D., the Shari'ah Board discussed the proposed amendments submitted by the Shari'ah Standards Review Committee. After deliberation, the Shari'ah Board approved necessary amendments, and the standard was adopted in its current amended version.

Appendix (B)

The Shari'ah Basis for the Standard

Dealings in Commercial Papers

- The basis for the permissibility of dealing in a bill of exchange is that it is in the meaning of Hawalah or Qard (loan) contract, which are agreed upon by Ijma' (consensus of Fuqaha), or in the meaning of *Suftajah* (demand note), which is valid according to the preponderant opinion. The evidence for this is the report from a number of Companions (may Allah be pleased with them) who dealt in these instruments. It is reported from Abdullah Ibn Abbas (may Allah be pleased with him) that he used to take silver from traders at Mecca and write down a demand note for them to be paid at Kufa. It is related from Abdullah Ibn Al-Zubayr that he used to take dirhams from traders at Mecca and then write a note drawn upon his brother Mus'ab in Iraq. When Ibn Abbas was asked about this, he saw no harm in the transaction.⁽³⁾ Al-Muwaffaq Ibn Qudamah,⁽⁴⁾ may Allah confer mercy upon him, has related from Ali (may Allah be pleased with him) that he was asked about a similar transaction and he saw no harm in it. Further, in the *Suftajah* is the interest of both the lender and the borrower without harm being caused to either one of them. The lender is secure against the danger of the highway in transporting his dirhams to the destined town, while the borrower benefits from the loan and is also secure against the dangers of the highway being under an obligation to pay in the said town. The Shari'ah does not lay down a prohibition for interests that do no invoke harm.

(3) This has been related by Al-Bayhaqi in "*Al-Sunan Al-Kubra*" [5: 352]; and see Muhammad Nasir Al-Albani, "*Irwa' Al-Ghalil Fi Takhrij Ahadith Manar Al-Sabil*" [5: 328].

(4) "*Al-Mughni*" [6: 436].

- Shaykh Al-Islam Ibn Taymiyyah⁽⁵⁾ (may Allah confer mercy upon him) has said: "The correct view is that of permissibility, because both the lender and the borrower benefit from such raising of a loan, and the Shari'ah does not proscribe what benefits them and is in their interest; it proscribes what is harmful for them." In addition to this, there is no text that prohibits a *Suftajah* nor is such meaning implied by the texts. It is, therefore, necessary to maintain its permissibility, especially when there is a general need for it.⁽⁶⁾
- The basis for the permissibility of a promissory note is that it is considered a document acknowledging a debt, and Allah, the Al-Mighty, has commanded the securing of debts, as He, the Al-Mighty, says: ***{“O you who believe! When you contract a debt for a fixed period, write it down. Let a scribe write it down in justice between you...”}***⁽⁷⁾
- The permissibility of a cheque drawn by the client upon a bank, with which he has a balance is that it is in the nature of Hawalah. The *Muhil* (transferor) is the accountholder, the *Muhal* is the beneficiary and the *Muhal Alayh* (transferee) is the drawee bank.
- The permissibility of a cheque drawn by the client upon a bank with which he does not have a balance is that it is Hawalah. This view is held by those who do not stipulate for the permissibility of Hawalah that the transferee be indebted to the *Muhal* (transferor) with Hawalah (transfer) being valid for a person who does not owe a prior debt. Some jurists call this absolute Hawalah or Hawalah upon one with no liability. The second view is that it is an agency for borrowing, and both are (independently) valid. This rule, however, is contingent upon the cheque no invoking Riba by way of an overdraft, for banks usually do not lend without interest. Banks will not accept cheques drawn upon them by clients with no balance except by charging Riba-bearing profits that are due from the client along with the value of the cheque. Consequently, if the cheque drawn by the client upon the bank, where he does not

(5) "Majmu' Al-Fatawa" [29: 531].

(6) See: "Al-Mughni" [6: 437]; "Majmu' Al-Fatawa" [20: 515] and [29: 531]; and Ibn Qayyim Al-Jawziyyah, "Tahdhib Sunan Abu Dawud" [5: 152].

(7) [Al-Baqarah (The Cow): 282].

have a balance, includes Riba-bearing profits it is prohibited; it is not permissible to write such a cheque nor to undertake transactions in it.

- The basis for the permissibility of dealing in crossed and account payee cheques, and the obligation of the payee bank to abide by the conditions stipulated by the accountholder for the two types of cheque, is the generality of the Hadith stating: *"Muslims abide by the conditions they stipulate"*.⁽⁸⁾ The reason is that such a condition promotes the inherent interest of the contract. Further, the primary principle for conditions and contracts is that of permissibility.

Endorsement

The basis for the permissibility of endorsement is that it does not go beyond the meaning of either Hawalah (transfer) or Wakalah (agency), and both are permissible.

Discounting of Commercial Papers

- The basis for not permitting discounting of commercial paper is that in reality the discounting of commercial paper amounts to a loan with interest. What affirms this is that the interest charged through discounting varies according to the value of the commercial paper and its date of maturity, and loan with interest is prohibited by agreement.
- The permissibility of paying less than the value of the paper, when the transaction is between the holder and the first beneficiary, is that it belongs to the category of the issue known as "negotiating a deferred debt for part of it paid promptly." This is what is known as *Da' Wa Ta'ajjal* (reduce the amount for hastening payment), and according to one opinion it is permissible to undertake such a transaction. The evidence that supports permissibility is the Hadith of Ibn Abbas (may Allah be pleased with him), stating: *"When the Prophet (peace be upon him) decided to expell Banu Al-Nadir, they said, 'O Messenger of Allah,*

(8) This Hadith has been related by a number of reporters of Hadith. See: *"Sunan Al-Tirmidhi"* [4: 584]; Al-Hakim, *"Al-Mustadrak"* [4: 101]; and *"SunanAl-Daraqutni"* [3: 27]. The Hadith has been narrated by Amr Ibn Awf and is connected to the Prophet (peace be upon him). It has a number of different Isnad (chains of transmission) to the Prophet. This is why Al-Bukhari related it in his *"Sahih"* [4: 451] as a *Mu'allaq* (Suspended) Hadith. Muhammad Nasir Al-Albani has investigated the chains of transmission of this Hadith *"Irwa' Al-Ghalil"* [5: 142-146] and concluded that the Hadith is generally authentic in view of the number of its Isnads.

you have ordered our expulsion when we have against people debt claims that are not yet due.' The Prophet (peace be upon him) said, 'Reduce the amounts to hasten payments'.⁽⁹⁾ Ibn Abbas (may Allah be pleased with him), was asked about the issue of a person who has a deferred claim against another, and he says to the debtor, "Hasten the payment and I will reduce the amount for you", so Ibn Abbas responded saying, "There is no harm in it". Ibn Abbas (may Allah be pleased with him), was the narrator of the previous Hadith. Further, this issue is the opposite of the issue of Riba. That is, Riba involves an excess in both the period and the amount, which is entirely harmful for the debtor, whereas this issue involves the absolving of the liability of the debtor with respect to the debt with a benefit coming to the creditor through prompt payment. Each one of them benefits without being subjected to harm. This is different from Riba, the prohibition of which is agreed upon and that causes injury to the debtor. The benefit in Riba is exclusively for the creditor (owner of capital). Thus, this case differs from Riba in both form and meaning. The reason is that the excess in Riba as a counter-value for the period leads to a grave hardship, for a single dirham is doubled and multiplied keeping the Dhimma (liability) engaged without any corresponding benefit. In the case of reduction of the amount and hastening of payment, the liability of the debtor is removed and the prompt payment benefits the creditor. The Law-giver encourages the discharging of debt liabilities. The debtor has been called a person imprisoned by difficulties, and thus in the discharging his liability is a release from these shackles. This is different from his remaining patiently burdened with an excess.⁽¹⁰⁾

(9) This Hadith has been related by a number of Hadith reporters. See: Al-Tahawi, *"Sharh Mushkil Al-Athar"* [11: 56]; Al-Bayhaqi, *"Al-Sunan Al-Kubra"* [6: 28]; *"Sunan Al-Daraqutni"* [3: 46]; and Al-Hakim, *"Al-Mustadrak"* [2: 52]. Ibn Al-Qayyim said in *"Ighathat Al-Lahfan"* [2: 11]: This Hadith has been related as per relation conditions of *"Al-Sunan Al-Kubra"*. Al-Bayhaqi has classified the Hadith as weak but the men in the chain of transmission of the Hadith are trustworthy. However, the Hadith has been classified as weak due to Muslim Ibn Khalid who is a narrator in the chain of transmission of the Hadith. Nevertheless, he is a trustworthy and reliable jurist as Imam Shafi'i has related Hadiths through him and regard his view as authoritative.

(10) *"Ighathat Al-Lahfan"* [2: 11]; and *"Tlam Al-Muwaqqi'in"* [3: 313].

- The basis for treating commercial paper as a price for ascertained goods is that it amounts to the sale of a debt, to a person other than the one who owes it, for ascertained goods. This is permitted according to the Maliki school if it takes place after possession so that it does not turn into the delaying of the two counter-values. A resolution pertaining to this has been issued by the Islamic Fiqh Academy of the Organization of Islamic Conference.⁽¹¹⁾

Taking Possession of Commercial Papers

- The basis for considering a cheque, whether certified or one of the same type, as possession of the amount mentioned in it, is that a cheque is secured by a large number of guarantees that make the possessor the owner of its contents. The beneficiary in this case is able to undertake transactions in it by selling, buying or by making a gift. Further, there is a strong protection provided by state governments to support confidence in cheques. In addition to this, relying upon a cheque means the existence of sufficient funds to cover its amount with the certifier undertaking to retain the funds until the end of the period fixed for payment. It is for this reason that people in general prefer certified cheques over cash for large transactions.
- The basis for not considering an uncertified cheque, or one that is similar to it as far as the possession of its amount is concerned, is the probability that there is no balance to cover it or there is an insufficient balance. The basis for possession is customary practice, and a resolution has been passed by the Islamic Fiqh Academy deeming the receipt of a certified cheque as possession.
- The basis for the permissibility of dealing in cheques for bank transfers, when the intention is to transfer the same currency in which payment is to be made, is that it belongs to the category of *Suftajah*, which is permissible according to one out of two opinions of the jurists.

Payment Guarantees for the Value of Commercial Paper

- The basis for considering a guarantee for acceptance as an undertaking and an obligation on the part of the drawee to pay to the legal holder, on

(11) In its 16th session held in Mecca on 21-26 Shawwal 1422 A.H.

the date of maturity, the amount of debt stated on the bill of exchange, is that this undertaking and obligation is to be fulfilled according to the Shari'ah. This requirement is due to the generality of the words of Allah, the Exalted, saying: **{“O you who believe! Fulfil (your) obligations”}**,⁽¹²⁾ as well as due to the generality of the saying of the Prophet (peace be upon him): *“Muslims abide by the conditions they stipulate”*.⁽¹³⁾

- The conditions a person stipulates for himself, and by which he is bound, are included in this meaning. There is also the Hadith of Jabir Ibn Abdullah (may Allah be pleased with him), who said: “The Messenger of Allah (peace be upon him) did not pray over (the funeral of) a person who died while owing a debt. A dead person was brought to him (for prayers) and he said, ‘Does he owe a debt?’ The people replied, ‘Yes, he owes two dinars.’ At this Abu Qatadah Al-Ansari said, ‘The two dinars are on me, O Messenger of Allah.’ The Messenger of Allah (peace be upon him) then offered the funeral prayers for him”.⁽¹⁴⁾ In this Hadith, we notice that Abu Qatadah Al-Ansari (may Allah be pleased with him) offers an undertaking and accepts the obligation to pay the debt owed by the deceased, and this is accepted by the Prophet (peace be upon him). In fact, this undertaking and obligation given by Abu Qatadah were deemed sufficient to absolve the deceased from all liability for the debt. In some different texts of the Hadith, it has been reported that after the statement of Abu Qatadah (The two dinars are on me), “The Prophet (peace be upon him) said, *‘The right of the creditor is due and the deceased is absolved of it.’* Abu Qatadah responded in the affirmative, so the Prophet (peace be upon him) prayed over him”.⁽¹⁵⁾ The removal of all liability for the debt from the deceased was due to the undertaking and obligation given by Abu Qatadah (may Allah be pleased with him), to pay the debt due from this person and because of which he became indebted to the extent

(12) [Al-Ma'idah (The Table): 1].

(13) The source of the Hadith is stated earlier.

(14) This text of the Hadith has been related by Abu Dawud in his “Sunan” [9: 193]. However, the Hadith has origin in the two authentic books of Hadith. See: “Sahih Al-Bukhari” [2: 467]; and “Sahih Muslim” [3: 1237] (H: 1619).

(15) This narration has been related by Imam Ahmad in his “Musnad” [3: 330].

of two dinars. Al-Muwaffaq Ibn Qudamah (may Allah confer mercy upon him) said: "The words of the Prophet (peace be upon him): *'The deceased is absolved of it'* mean that 'you have now become subject to the claim for two dinars.' This is by way of emphasis for establishing the claim against him as well as the obligation to pay".⁽¹⁶⁾

- The basis for permitting the holder of commercial paper to have recourse to all persons who have signed the paper is that by doing so they bind themselves to the extent of the value of the paper in case of non-payment. The Ulama arrived at a consensus on the permissibility of guarantees on the whole.
- The basis for the permissibility of guarantees through tangible assets is that these are treated as Rahn (mortgage) and are governed by the same rules that apply to Rahn. The Ulema arrived at a consensus for the permissibility of Rahn (Mortgage).

(16) "Al-Mughni" [7: 85].

Appendix (C)

Definitions

Commercial Papers

Tradable certificates that represent pecuniary rights payable at sight or after a short period. Customary practice regards them as instruments of payment and they act as substitutes for cash in transactions.

Bill of Exchange

A certificate issued in a particular legal form. It consists of an order from a person (known as the drawer) to another person (known as the drawee) to pay a certain sum of money at sight, or at a particular or determinable date, to a third person (called the beneficiary).

Promissory Note

A certificate whereby the issuer promises to pay a certain sum of money at a particular or determinable date, or at sight, to another person (called the beneficiary).

Cheque

A certificate that is issued in a particular form containing an order issued by a person (known as the payer) to another person (known as the payee) to pay a certain sum of money to a third person (known as the beneficiary) when the cheque is presented.

Crossed Cheque

A cheque written in the form of an ordinary cheque except that it is distinguished by two parallel lines on the face of the cheque. The crossing places an obligation upon the payee bank not to pay the value of the cheque to a person other than a client of the payee bank or to another bank.

Certified Cheque

A cheque written in the form of an ordinary cheque and distinguished by the word “certified” or “accepted” or whatever gives this meaning, on the face of the cheque along with the date and the address of the payee bank with the signatures of the certifying official whereby the payee bank certifies the authenticity of the signature of the payer and the existence of sufficient funds in his account for payment of the value of the cheque to the beneficiary.

Banker's Cheque (Bank Draft)

A cheque issued by the payee bank (to its client) guaranteeing payment of the value of the cheque to a third party.

Account Payee Cheque

A cheque written in the form of an ordinary cheque to which the issuer adds a statement indicating that its value should not be paid in cash, but upon conditions stated, like a statement written on the face of the cheque saying “Account Payee” or any other statement bearing the same meaning.

Travellers' Cheque

Cheques drawn in varying values by institutions upon their foreign branches or correspondent institutions in the interest of a traveller who will receive their value by merely presenting them for payment to a party that will accept them.

Cheques for Bank Transfers

A cheque written by an institution, upon the request of a person, who intends to remit his cash through the institution, by way of cheques, to another location, so that he, his agent, or any other person may receive it.

Endorsement

A legal act by means of which ownership in the commercial paper is transferred from one person (known as endorser) to another person (known as the endorsee), or it has the effect, through a statement, of creating an agency for collection or a mortgage.

Discounting of Commercial Papers

A process by means of which the holder of commercial paper, through an endorsement, transfers ownership in it to a third party prior to the date of maturity with the institution discounting the value by a determined amount in lieu of early payment.

Acceptance to Pay

The undertaking by the drawee to pay the value of the bill of exchange to the lawful holder at the date of its maturity.

Guarantee or Guarantor

The bank as guarantor provides a guarantee to the holder for paying the value of the commercial paper by way of a guarantor along with other signatories if the primary debtor refuses to pay.

Tangible Guarantees

These are guarantees stipulated by the holder of commercial paper through the creation of a mortgage on real estate, or a mortgage of movables, like commercial paper or negotiable instruments that the debtor endorses over to the holder by way of mortgage or goods that the debtor delivers to the holder as a security for payment.



