

LAW ON BILLS

Chapter One General Provisions

Article 1. Purpose of the law

The purpose of this law is to regulate relations between citizens and business entities with respect to the use of bills of exchange and promissory notes (hereinafter referred to as “bills”) as a means of payment.

Article 2. Legislation on bills

1. The legislation on promissory notes is comprised of the Civil Law, Banking Law, this law and other relevant legislation which is consistent with those laws.
2. If an international treaty to which Mongolia is a party is inconsistent with this law, then the provisions of the international treaty shall prevail.

Article 3. Definitions in this law

The following definitions shall be used in this law:

1. “Bill” means an instrument in the approved form by which a drawer promises to pay unconditionally to the drawee of the bill a fixed amount on a fixed date. A bill shall be security for payment.
2. “Drawer” means a citizen or legal person who draws a bill.
3. “Drawer of a promissory note” means a person who draws a bill which promises to pay a seller at a fixed time for services or goods received.
4. “Drawer of a bill of exchange” means a person who orders payment of a fixed amount by a payer.
5. “Drawee” means a citizen or legal person who holds a bill and claims payment for the goods or services provided.
6. “Transferor of bill” means the drawee of a bill who transfers the bill to another person by making a record on the bill.

Article 4. Types and forms of bills

1. Bills shall be either bills of exchange or promissory notes. Bills shall either be in the form of a nominate bill or a requesting bill.
2. A promissory note means a bill by which the drawer promises to pay to the drawee a fixed amount at a fixed time.
3. A bill of exchange means a bill by which the drawer orders payment of a fixed amount of money at a fixed time to the original drawee or to a transferee by the payer who confirms payment will be made.
4. A nominate bill means a bill which clearly identifies the name and address of the first holder of the bill (“drawee”).
5. A requesting bill means a bill without the name and address of a drawee and “pay to the bearer of the bill” is stated on the bill.

Article 5. Requirements of bills

1. A bill shall contain the following:
 - 1) the word “bill” shall be written on it in the language of the issuing country;
 - 2) the record or confirmation of the payer that payment of the defined amount of money will be unconditional;
 - 3) the name, address and bank account number of the payer (in the case of a promissory note the name of the payer shall be the same as the name of the drawer);
 - 4) the place where the payment will be made and the name and address of the bank of the payer;
 - 5) in the case of a nominate bill of exchange, the name of its first holder;
 - 6) the currency;
 - 7) the maturity date;
 - 8) the issue date;
 - 9) the name, address and signature of the drawer;
 - 10) in the case of a bill of exchange, confirmation of payment; and
 - 11) the words “the amount fixed in the bill shall be paid unconditionally (in accordance with the Law on Bills)” must be recorded on the bill.
2. The words “date of presentation of the bill” or “[x] days after the presentation of the bill” (written in figures and in letters) shall be stated alongside the date upon which payment shall be made as required by paragraphs 1 and 2 of article 12 of this law.
3. Standard forms for bills and the rules for their use shall be determined by the Bank of Mongolia.
4. The maximum maturity date that the parties may agree on shall be one year from the date the bill is drawn.
5. The bill shall include the name and address of only one bank which shall effect payment.
6. The amount of the payment shall be given in figures and in words without any corrections. It shall be prohibited to write the amount expressed in figures unclearly, separately or illegibly.
7. The maturity date shall be agreed upon by the parties.

Article 6. Basis for invalidation of bills

Bills shall be invalid in the following cases:

- 1) if any of the requirements of articles 5(1) and 17(1) of this law are absent or incomplete;
- 2) if the signature of the drawer and the person who confirms payment or in the case of a legal person the signature, stamp or seal of that legal person are absent or incomplete;
- 3) if an unauthorised form is used; or
- 4) if any other conditions stipulated by law are breached.

Chapter Two

Confirmation of Payment, Basis for Rejection of Payment and Claims for Payment

Article 7. Confirmation of payment

1. Confirmation of payment shall mean the record of the payer on the bill by his or her signature and in the case of a legal person, by its stamp or seal as agreement to make the payment.
2. It shall be prohibited for a payer to confirm partial payment of the amount indicated in the bill.
3. The drawer shall be responsible for arranging the confirmed payment of the bill of exchange.

Article 8. Date of confirmed payment

1. In the case of a promissory note, the date of confirmation of payment shall be the date the bill is drawn.
2. In the case of a bill of exchange, the confirmation of payment shall be made before the maturity date.

Article 9. Execution of payment by means of bills

1. If a drawee presents a bill to the payer and demands payment, payment must be made by the maturity date. The payer may make payment before the maturity date.
2. The payer shall make payment on the maturity date or within two working days after the maturity date and notification of payment shall be made on the bill.
3. A drawee shall not have the right to demand payment before the maturity date, unless the payer is made bankrupt by a Court or a Court orders that the property of the payer shall be compulsorily taken as security for the repayment of a debt.
4. A drawee may claim payment from a bank at the fixed time stated on the bill. The bank may charge a service fee. The Ministry of Finance and the Bank of Mongolia shall establish rules for the execution of payment by way of bills.

Article 10. Refusal to pay

1. Payment shall be refused in the following cases:
 - 1) if a bill is invalid in accordance with the grounds for invalidation as provided in article 6 of this law;
 - 2) if a drawee demands payment more than one year after the date the bill is drawn.
2. If the payer refuses to pay in accordance with sub-paragraph 1 of paragraph 1 of this article, the payer shall record any objections and that document shall be certified by a notary before the maturity date of the bill.
3. Disputes arising out of a refusal to pay shall be settled in accordance with the Civil Law of Mongolia.

Article 11. Currency of payment

1. Within the territory of Mongolia, a payer shall effect payment in the national currency of Mongolia (in togrogs).

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2. If payment is made in a foreign currency, it shall be upon the agreement of the parties and made in freely convertible foreign currency.

Article 12. Date for making payment

The date of payment shall be determined by one of the following dates:

- 1) the date of presentation of the bill;
- 2) a date that is determined after presentation of the bill;
- 3) the date stipulated in the bill; or
- 4) a date that is determined after the drawing of the bill.

Article 13. Interest rates of bills

A bill may provide for interest to be payable and it shall be calculated annually or monthly. The interest rate shall be agreed upon by the parties. The agreed interest rate shall be recorded on the bill.

Article 14. Demands for payment

1. A drawee has the right to demand payment from the payer and the payer's guarantor without dispute if payment is not made within two days after the maturity date. In that case, the bank which holds the deposit bank account of the payer shall be responsible for effecting payment of the bill from the deposit bank account of the payer.
2. A drawee may bring a claim to Court if he or she does not receive the amount indicated on the bill in accordance with paragraph 1 of this article.

In such a case a drawee has a right to claim the payment of:

- 1) the unpaid amount of a bill and any accumulated interest at the rate stated on the bill, if the payment of interest was agreed to by the parties;
 - 2) any interest payable daily for late payment calculated in accordance with paragraph 5 of article 180 of the Civil Law of Mongolia;
 - 3) any income which the drawee would have received, if the payment was made on time; and
 - 4) settlement fee which is related to the claim.
3. A claim as described in paragraph 2 of this article can be brought jointly or severally against the drawer of a bill, the payer who has confirmed payment, the transferor of a bill and their guarantors.
 4. A payer may bring a claim in Court if in accordance with the law it is reasonable within the following time:
 - 1) in the case of refusal by the payer to confirm payment, before the maturity date of a bill;
 - 2) in the case of refusal to make payment, within ten days of the date upon which payment was due.

Chapter Three

Guarantees for the Payment of Bills and the Transfer of Rights of Ownership of Bills

Article 15. Guarantors

1. A guarantor means a third person who takes responsibility for payment on behalf of a payer. A guarantor shall be a bank or a business entity.

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2. A guarantor shall have the rights and responsibilities determined by the Civil Law of Mongolia.
 3. If a bank is a guarantor, it shall agree to the following with the payer:
 - 1) to maintain a special deposit account in the name of the payer and to accumulate funds in this account from the income of the payer for the payment of bills;
 - 2) that the payment of bills shall be unconditionally effected from the deposit account of the payer at the fixed time; and
 - 3) that it shall grant a loan to the payer for the amount of the payment of the bill if the payer does not hold sufficient funds in his or her account.

Article 16. The transfer of bills to other persons

1. The drawee may transfer a bill before its maturity date to another person by agreement in the following cases:
 - 1) if the drawee requires funds before the bill is to be paid; or
 - 2) if the drawee owes money to its creditors or suppliers.
2. In cases to which paragraph 1 of this article applies, bills may be sold on the money market or to a commercial bank.
3. If a commercial bank buys a bill it must have the financial resources to do so. A commercial bank may buy a bill at a discount and it shall agree to the amount of the discount with the seller of the bill. A commercial bank can sell bills at a further discount to the Bank of Mongolia if it is temporarily short of funds. The Bank of Mongolia shall determine the rate of the further discount.
4. Transfers of partial rights of ownership in a bill to other persons are prohibited.

Article 17. Record of the transfer of a bill

1. If a bill is to be transferred to another person, a record shall be made on the bill or on pages attached to the bill. The record shall contain the following:
 - 1) the transferor's name and address;
 - 2) the name of the bank and bank account number of the transferor;
 - 3) the signature and seal of the transferor;
 - 4) the date of transfer; and
 - 5) the name, address, bank and bank account number of the transferee.
2. It is not necessary to make records on requesting bills.
3. The rights of the drawee shall be transferred to the transferee upon the making of a record on the bill.

Chapter Four

Miscellaneous Provisions

Article 18. The settlement of disputes in respect of bills

1. Disputes arising as a result of the non-payment of a bill within the required time shall be settled by a Court in accordance with the relevant legislation of Mongolia.
2. Disputes arising as a result of the payment by way of a bill for delivered goods or services shall be settled in accordance with the Civil Law of Mongolia.

Article 19. Breaches of legislation

1. A person in breach of the legislation on bills shall be punished in accordance with the legislation depending on the culpability of that person, the nature of the breach, and the extent of the damage caused by the breach.
2. A person who fraudulently confirms payment by signing on behalf of a payer or an unauthorised person who illegally signs in the name of the payer shall be responsible for all consequences.
3. If a breach of the legislation on bills does not constitute a criminal offence, a judge shall impose the following penalties on offending persons:
 - 1) a fine of 15,000 to 25,000 togrogs if the requirements of a bill are not met or if the amount indicated on the bill is only partially paid;
 - 2) a fine of 20,000 to 25,000 togrogs if the person refuses to make payment, unless one of the exceptions provided in article 10 of this law applies, or if a person delays confirmation of payment;
 - 3) a fine of 10,000 to 25,000 togrogs if a person transfers a bill to another unless one of the exceptions provided in article 16 of this law applies, or if a person transfers a bill without making a record of the transfer on the bill.
4. A person entitled to compensation for losses as a result of a breach of paragraph 3 of this article or any other provision of the legislation on bills shall have a right to claim damages against the person in breach in accordance with the relevant legislation.

Article 20. Copying bills

Where necessary, a bill may be copied. The copy of a bill shall not be considered as a valid document of payment and it shall certify the drawing of the bill only.

Chairman of the State Ih Hural of Mongolia
N Bagabandi

Ulaanbaatar
2 November 1995
