

7- DISCOUNT AND REDISCOUNT SYSTEM OF COMMERCIAL PAPERS

- A) Rules and Regulations for the Discount and Rediscount System of the Commercial Papers, and amendment thereof.
- B) Correspondence concerning uniformity in the manner of declaring the data attached to commercial papers submitted for discount with the Central Bank of Kuwait.
- C) Correspondence concerning the Central Bank's policy regarding the commercial papers submitted for discount.

**Rules & Regulations
regarding the Discount and Rediscount
System of the Commercial Papers**

Article (1)

In pursuance of these Rules and Regulations, a system for the discount and rediscount of commercial papers shall be established at the Central Bank of Kuwait. Local banks, which agree to abide by the provisions of these rules and regulations, shall be eligible to benefit by such system.

Article (2)

Commercial papers acceptable for discount or rediscount are bills of exchange and promissory notes denominated in Kuwaiti Dinar.

Article (3) *

Commercial papers to be accepted for discount or rediscount should satisfy the following conditions:

- a) The paper shall mature within one year from the date of its being discounted or rediscounted at the Central Bank of Kuwait.
- b) The paper shall satisfy all legal requirements stipulated in the provisions of the Kuwaiti Law of Commerce.
- c) The paper shall bear the signatures of not less than two solvent persons; one of which must be the signature of the bank that submitted the paper for discount.
- d) The paper shall be free from any wording or defect that might encumber its negotiability through endorsement.
- e) All endorsements on the paper shall be serial and unconditional.

* Article 3 was amended in October 1977.

- f) The paper shall not be bearing the signature of any member of the Central Bank of Kuwait Board of Directors, or any employee or servant working for the Central Bank of Kuwait.

Article (4)

Every paper to be presented for discount or rediscount shall have an attachment of a statement showing the nature of the activity from which such paper has resulted. Such statement shall be stamped by the bank presenting the paper for discount. Accommodation papers, and papers emanating from trading transactions in securities shall not be accepted for discount or rediscount.

Article (5)

The bank presenting the paper for discount or rediscount shall make a blank endorsement thereon.

Such endorsement shall be concluded through signature on the reverse of the paper by signatories authorized to dispose of the concerned bank's assets.

Article (6)

The Central Bank of Kuwait shall examine the papers presented for discount or rediscount, and then shall decide whether such papers are accepted or rejected therefor. The rejected papers shall be delivered directly, and as early as possible, to the bank presenting them. The Central Bank of Kuwait shall not be bound to state the reasons underlying rejection of any such paper.

Article (7)

The Central Bank of Kuwait shall credit the amounts due from the discounted papers to the concerned banks' accounts with the Central Bank of Kuwait. Credit entry shall be effected the next business day following the day when such papers have been submitted for discount.

A Credit Advice shall be given to each bank concerned, showing the papers discounted, which represent the amount quoted in such a Credit Advice.

7- DISCOUNT AND REDISCOUNT SYSTEM OF COMMERCIAL PAPERS.

A) Rules and Regulations for the discount and rediscount of the commercial papers, and amendment thereof.

Article (8)

The Central Bank of Kuwait shall return the discounted papers to the concerned banks, which presented them, two business days before the maturity date of such papers collectable in Kuwait, and ten business days before the maturity date of papers collectable abroad.

The concerned banks shall be bound to receive the papers when they are returned to them, for collection for their own accounts. Receipt of such papers shall be evidenced through signing the receipt slips prepared by the Central Bank of Kuwait for this purpose.

The Central Bank of Kuwait shall endorse the returned papers through signing at the back of each paper by signatories authorized to dispose of the bank's assets.

Article (9)

The nominal value of the returned papers shall be entered in the debit side of the account of the concerned bank on the maturity date of such a paper. The bank shall be given a Debit Advice showing the papers returned, which represent the amount quoted in such a Debit Advice.

Article (10)

Banks may recover discounted papers before the date stipulated under Article (8) of these Rules and Regulations. Recovery of such papers, and settlement of the amount they represent, shall be effected in accordance with the terms and conditions to be determined by the Central Bank of Kuwait.

The amounts representing the recovered papers shall be entered on the debit side of the concerned bank's account. Such entry shall be made on the same day when the papers have been recovered, and such a bank shall be notified thereof by a Debit Advice showing the papers recovered.

Article (11)

The Central Bank of Kuwait may decrease or cut off the discount facilities granted to any bank, which delays covering its debit balance arising from discount transactions.

The Central Bank of Kuwait shall apply a penalty interest rate to be charged on such debit balances.

7- DISCOUNT AND REDISCOUNT SYSTEM OF COMMERCIAL PAPERS.

A) Rules and Regulations for the discount and rediscount of the commercial papers, and amendment thereof.

Article (12)

The maximum limit for the amount of discount allowed to all local banks, and the maximum limit for the amount of discount allowed to each bank, shall be fixed by a resolution to be issued by the Board of Directors of the Central Bank of Kuwait. Papers resulting from certain economic activities may be excepted from such maximum limits.

The maximum limit for the amount of papers to be retained by the Central Bank of Kuwait and rediscounted for the account of a certain debtor - whether a natural or a judicial person - may be fixed by a resolution of the Board of Directors of the Central Bank of Kuwait.

Article (13)

The rate of discount shall be fixed and changed by a resolution of the Board of Directors of the Central Bank of Kuwait, and the banks shall be notified of the new discount rate on the date of application thereof.

The new discount rate shall apply to the papers accepted for discount after such a rate has been put into effect. The discount rate shall not be applied retroactively.

Article (14)

For the purpose of encouraging credit direction towards certain sectors, which are effectively important for the economic development activities, the Board of Directors of the Central Bank of Kuwait may fix more than one discount rate at a time.

Article (15)

These Rules and Regulations shall be put into operation as effective from the First Day of February 1975.

*Shawwal 29, 1407 H.
June 25, 1987*

THE GENERAL MANAGER,

Uniformity in the manner of declaring the data attached to the commercial papers submitted for discount with the Central Bank of Kuwait in accordance with the format attached hereto^{*}

In view of the variance noticed in the manner adopted by local banks for declaring the data attached to the commercial papers submitted for discount with the Central Bank of Kuwait (CBK), and in order to regulate and facilitate the discount process of the said papers with the CBK, it has been deemed necessary to unify the manner of declaring such data attached to the commercial papers submitted to the CBK for discount in conformity with the form attached herewith, as effective from July 1, 1987.

Consequently, you are kindly requested to instruct the concerned staff in your bank to observe due accuracy and care in completing the mentioned above format, and to comply with the sequence of the required items as contained therein.

Yours faithfully,

Hameed Ahmed Al-Rasheed

Manager of Supervision Department

^{*} Circulated to all local banks.

7 -DISCOUNT AND REDISCOUNT SYSTEM OF COMMERCIAL PAPERS.

B) Correspondence concerning uniformity in the manner of declaring data attached to commercial papers submitted for discount with the Central Bank of Kuwait.

Central Bank of Kuwait

Supervision Department

Credit Section

Bank :

Date :

Data pertaining to the Commercial Paper

1	Number of the Commercial Paper	
2	Drawer's Name	
3	Beneficiary's Name	
4	Purpose of issuing the Commercial Paper	
5	Amount of the Commercial Paper	
6	Maturity Date of the Commercial Paper	
7	Amount of Term Loan from which the Paper Resulted	
8	Loan's Date	
9	Loan's Maturity Date	
10	Actual Interest Rate on the Loan	
11	Total Term Loans granted to the Customer	

Bank's Signature

.....

7 -DISCOUNT AND REDISCOUNT SYSTEM OF COMMERCIAL PAPERS.

B) Correspondence concerning uniformity in the manner of declaring data attached to commercial papers submitted for discount with the Central Bank of Kuwait.

GOVERNOR

*22 Jumada I, 1408 H.
January 12, 1988*

THE CHAIRMAN,

**Central Bank's Policy in respect of
the Commercial Papers submitted for Discount ***

I would like to refer to the letter received from the Kuwaiti Banks Committee dated December 15, 1987, requesting the Central Bank's approval of one from the two alternatives proposed by the local banks in connection with balances of KD overdraft facilities, extended by banks for a period not exceeding one year, for the purpose of financing productive economic activities.

In this connection, we would like to advise you that the Central Bank of Kuwait (CBK) has no objection to banks' submission of papers originating from overdraft facilities to be discounted therewith. Nevertheless, the CBK has full discretion to accept or reject discounting such papers -totally or partially- based on the discount policy implemented by the CBK upon submitting such papers for discount. Accordingly, the CBK is under no obligation to discount such commercial papers submitted by banks, originating from overdraft facilities, which have been extended for the purpose of financing productive economic activities.

* Circulated to all local banks.

It is worth mentioning that the commercial papers to be accepted for discount with the CBK must satisfy all the conditions stipulated in the “Discount and Rediscount System”, particularly the indication of the economic activity from which such papers have been originated. In addition, the value of the discounted paper must also represent the balance of the overdrawn account or a part thereof, up to the expiry of the paper’s discount term, since the CBK shall not hold any discounted papers, which do not represent actual indebtedness.

With my best regards,

SALEM ABDUL AZIZ AL-SABAH