

## THE REPUBLIC OF ARMENIA

## LAW

## ON FUNDS TRANSFER BY PAYMENT ORDER

*Adopted December 4, 1996*

## CHAPTER 1

**GENERAL PROVISIONS****Article 1. Subject of the Law**

This law determines the legal regime of funds transfer by payment order in the Republic of Armenia and the rights and obligations of the parties to the funds transfer contract and their responsibility for non-fulfillment or improper fulfillment of obligations.

**Article 2. Funds Transfer by Payment Order**

Funds transfer by payment order (hereinafter funds transfer) means the series of transactions, beginning with the payer's payment order, made for the purpose of making payment to the beneficiary designated in the payment order. Funds transfer includes any payment order sent by the payer's bank or an intermediary bank to the next bank and intended to carry out the payer's payment order. A funds transfer is completed by acceptance by the beneficiary's bank of a payment order for the benefit of the beneficiary of the payer's payment order.

**Article 3. Payment Order**

1. Payment order means an instruction (transmitted orally, electronically, or in writing) of a sender to a receiving bank, to pay, or to order another bank to pay, a fixed or determinable amount of money to a beneficiary if:

- a) the instruction does not state a condition for payment to the beneficiary other than time of payment, and
- b) receiving bank is to be reimbursed by debiting an account of, or otherwise receiving payment from the sender, and
- c) the instruction is transmitted by the sender directly to the receiving bank or to an agent, funds-transfer system, or communication system for transmittal to the receiving bank.

If an instruction complying with paragraph 1 of this clause provides for making more than one payment to a beneficiary, the instruction is a separate payment order with respect to each payment.

A payment order is considered to be sent when it is sent to the receiving bank.

2. Amount of payment order means the amount, stated in a payment order, to be paid to a beneficiary.

3. The Central Bank is entitled to establish requisites for payment orders, cancellations of payment orders and notifications, in order to ensure the smooth operation of the payment system.

**Article 4. Parties to the Funds Transfer Contract**

1. Parties to the funds transfer contract mean parties to contracts necessary to carry out the funds transfer: the sender, the receiving bank and the beneficiary.

2. Sender means the person sending the payment order to the receiving bank. The sender may be a payer, a payer's bank and an intermediary bank (banks).

3. Payer means the sender of the first payment order in a funds transfer.

4. Payer's bank means the receiving bank to which the payer's payment order is issued. If the payer is a bank the payer is the payer's bank as well.
5. Intermediary bank means a receiving bank other than the payer's bank or the beneficiary's bank.
6. Receiving bank means the bank to which the sender's payment order is addressed (the payer's bank, the intermediary bank (banks) and the beneficiary's bank).
7. Beneficiary means the final addressee of the transfer of the amount of the sender's payment order.
8. Beneficiary's bank means the bank designated in a payment order:
  - a) in which a beneficiary's account is to be credited pursuant to the payer's payment order, or
  - b) which is to pay the amount of payment order to the beneficiary pursuant to the payer's payment order.
9. A bank, its branches and operational offices are deemed to be independent parties to funds transfer. Rights and obligations of banks, arising from the funds transfer and stated in this law, apply to bank's branches and operational offices.

#### **Article 5. Funds-Transfer Systems**

Funds-transfer systems mean specialized communication systems of the Central Bank, bank or banks through which payment orders, cancellations of payment orders and (or) account statements are transmitted to persons to which they are addressed.

#### **Article 6. Obligation to Explain Essential Terms of the Contract to Customer**

1. While concluding a funds-transfer contract a bank is obliged to properly inform the customer of his rights, obligations and the essential terms of the contract.
2. If a bank does not fulfill its obligation under this article the contract may be declared invalid by the request of the customer.

#### **Article 7. Business Day; Time Payment Order is Received**

1. Funds-transfer business day (hereinafter business day) means the part of a day during which the bank is open for the receipt, acceptance and (or) sending (transmittal) of payment orders and cancellations of payment orders as well as for provision of account statements. The bank determines the funds-transfer business day independently. On customer's demand, or while concluding an appropriate contract, the bank is obliged to notify the customer of bank's funds-transfer business hours.
2. If a payment order or a cancellation of a payment order is received after the closure of a funds-transfer business day, it is treated as received at the opening of the next funds-transfer business day.

## **CHAPTER 2**

### ***ISSUANCE, ACCEPTANCE AND CANCELLATION OF PAYMENT ORDERS***

#### **Article 8. Security Procedure**

1. Security procedure means a procedure established by agreement of the parties to the funds transfer contract for the purpose of ensuring the authenticity of belonging of payment orders and other communications, and discovering errors in the content of the payment order or communication.

A security procedure may provide for the use of special algorithms, codes, encryption and other identifying devices.

2. The procedure used by the bank shall ensure an unimpeded performance of funds transfer. The sender has a right to require from the receiving bank to use a different security procedure, provided for by a contract or a funds-transfer system rule with respect to transfer of payment orders and other communications of the sender. In case of using a different security procedure proposed by the sender, the receiving bank is

exempt from responsibility for non-fulfillment or improper fulfillment of its obligations owed to the sender if this is caused by defects of that procedure.

3. The Central Bank is entitled to establish requirements for security procedures used by funds-transfer systems.

#### **Article 9. Validity of Payment Order**

1. A payment order is valid if it is sent by a person designated as sender or by its representative.
2. A payment order which does not comply with clause 1 of this article is valid as well if:
  - a) a bank and its customer have agreed that the authenticity of payment orders issued to the bank by the customer or in the name of the customer will be verified pursuant to a certain security procedure, and
  - b) the bank accepted the payment order in good faith and in compliance with the security procedure provided for by a written agreement between the bank and the sender and other instruction of the customer. The bank is not required to follow an instruction of the sender that violates the written agreement or notice of which is not received at a time and in a manner affording the bank an opportunity to take appropriate actions.
3. A payment order accepted in compliance with clause 2 of this article is invalid if the sender proves that:
  - a) the order was not sent by a person (persons):
    - entrusted at any time with duties to act for the customer with respect to payment orders or the security procedure, or
    - who obtained, from a source controlled by the customer and without authority of the receiving bank, information making possible the transfer, regardless of how the information was obtained or whether the customer was at fault, and
  - b) the payment order was not issued by means of using the transmitting facilities of the customer.
4. If security procedures shall meet minimum requirements established by the Central Bank, pursuant to clause 3 of article 8 of this law, the payment order is valid if the security procedure provided for by clause 2 of this article meets those minimum requirements.
5. Rights and obligations of the parties to the transfer arising under clauses 1, 2 and 4 of this article may not be varied by agreement or funds-transfer system rule.
6. This article also applies to cancellations of payment orders.

#### **Article 10. Consequences of Invalidity of Payment Order**

1. If a receiving bank accepts an invalid payment order (article 9) and a sender fulfils his obligation to pay (articles 25 and 26) the bank shall refund on sender's demand the amount of payment order and shall pay interest on the refundable amount calculated from the date the bank received payment to the date of the full refund. The customer is not entitled to interest from the bank on the amount to be refunded if the customer fails to notify the bank of his objection as soon as possible but not later than 20 days after the date the customer received notification (orally, electronically, or in writing) from the bank that the order was accepted or that the customer's account was debited.
2. Obligation of banks under this article may not be varied by agreement or funds-transfer system rule.

#### **Article 11. Error in a Payment Order**

1. If a payment order was transmitted pursuant to a security procedure and the payment order:
  - a) erroneously instructed payment to a beneficiary not intended by the sender, or
  - b) erroneously instructed payment in an amount greater than the amount intended by the sender, or
  - c) was an erroneously transmitted duplicate of a payment order previously sent by the sender, and the sender proves that it complied with the security procedure and that the error would have been detected if the receiving bank had also complied, the sender is not obliged to pay the amount of payment order and if the funds transfer is completed on the basis of a payment order described in subclause "b" of this clause the sender is not obliged to pay the difference between the amount

- stated in the order and the amount intended by the sender. The bank is entitled to claim against the beneficiary any amount erroneously paid to the beneficiary in order established by law.
2. If:
    - a) the sender of an erroneous payment order is not obliged to pay to the receiving bank all or part of the amount of payment order pursuant to clause 1 of this article, and
    - b) the sender receives notification (orally, electronically, or in writing) from the receiving bank that the order was accepted by the bank or that the sender's account was debited, the sender has a duty to discover the error as soon as possible but not later than 60 days after the bank's notification was received by the sender and to immediately advise the bank of the relevant facts. Otherwise, if the receiving bank proves that the sender delayed or failed to perform his duty under this clause, the sender is liable to the bank for the loss incurred as a result of the failure, but the liability of the sender may not exceed the amount of the payment order.
  3. This article applies also to cancellations of payment orders.

### **Article 12. Transmission of Payment Order Through Funds Transfer or Other Communication System**

1. If a payment order addressed to a receiving bank is transmitted through a funds-transfer or other communication system, and there is a discrepancy between the payment order transmitted to the system and the payment order transmitted by the system, the receiving bank shall rely on the payment order transmitted by the system.
2. Clause 1 of this article does not apply to a funds-transfer system of the Central Bank. The Central Bank is responsible for improper execution of payment orders as an intermediary bank.
3. This article applies also to cancellations of payment orders.

### **Article 13. Identification of Beneficiary**

1. Except as provided in clause 2 of this article, if a payment order received by the beneficiary's bank, states the name, bank account number, or other identification number of an unidentifiable or unknown beneficiary or account or other identification number, acceptance of the payment order cannot occur and no person has rights as a beneficiary.
2. If a payment order received by the beneficiary's bank identifies the beneficiary stated in the payment order both by name and by a bank account or other identifying number and the name and number identify different persons, the following rules apply:
  - a) Except as otherwise provided in clause 3 of this article, if the beneficiary's bank does not know that the name and bank account or other identification number refer to different persons, it may rely on the number. The beneficiary's bank need not determine whether the name and number refer to the same person.
  - b) if the beneficiary's bank pays the person identified by name or knows that the name and number identify different persons, no person has rights as beneficiary except the person that was paid the amount of payment order by the beneficiary's bank if that person was entitled under the law or a contract to receive payment from the payer. If no person has rights as beneficiary, the payment order is deemed to be rejected.
3. If a payment order described in clause 2 of this article is accepted, and the name and number of a beneficiary stated in the payer's payment order identify different persons, and the beneficiary's bank pays pursuant to subclause "a" of clause 2 of this article, the following rules apply:
  - a) if the payer is a bank, the payer is obliged to pay the amount of payment order;
  - b) if the payer is not a bank and proves that the person identified in the payment order by number was not entitled under the law or a contract to receive payment from the payer, the payer is not obliged to pay;
  - c) if the payer is not a bank and the payer's bank proves that the payer, before acceptance of the payer's payment order, had notice that the beneficiary's bank is entitled to identify the beneficiary on the basis of a number, the payer is obliged to pay.

4. If the beneficiary's bank pays the person identified by the number stated in the payment order, pursuant to subclause "a" of clause 2 of this article, and that person was not entitled to receive payment from the payers, compensation may be claimed against that person in order established by the legislation of the Republic of Armenia:

- a) by the payer, if the payer is obliged to pay the amount stated in the payment order pursuant to clause 3 of this article, or
- b) by the payer's bank, if the payer is not a bank and is not obliged to pay the amount stated in the payment order.

#### **Article 14. Identification of Intermediary Bank and Beneficiary's Bank**

1. If an intermediary bank or the beneficiary's bank stated in a payment order is identified only by a number (code), the receiving bank in identifying them relies on the number of the intermediary bank or the beneficiary's bank and need not determine whether the number identifies the bank in question, and the sender is obliged to compensate the receiving bank for damages incurred by the receiving bank as a result of its reliance on the number in executing or attempting to execute the payment order.

2. If an intermediary bank or the beneficiary's bank designated in a payment order is identified both by name and a number (code), and the name and number identify different persons, in identifying them the following rules apply:

- a) if the sender is a bank, the receiving bank may rely on the number if the receiving bank, when it executes the sender's payment order, does not know that the name and number identify different persons. The receiving bank need not determine whether the name and number identify the same bank. The sender is obliged to compensate the receiving bank for damages incurred by the receiving bank as a result of its reliance on the number in executing or attempting to execute the payment order;
- b) if the sender is not a bank and the receiving bank proves that the sender, before the sender's payment order was accepted by the receiving bank, had notice that the receiving bank is entitled to identify the intermediary bank or the beneficiary's bank only on the basis of a number (even if the payment order states both its name and number), the subclause "a" of this clause shall apply.
- c) regardless of whether the sender is a bank, the receiving bank may rely on the name of the intermediary or beneficiary's bank if the receiving bank, at the time it executes the sender's payment order, does not know that the name and number identify different persons. The receiving bank need not determine whether the name and number identify the same bank.
- d) if the receiving bank knows that the name and number of the intermediary or beneficiary's bank stated in the payment order identify different persons, reliance on either the name or the number in identifying them is considered as an improper fulfillment of the receiving bank's obligation stated in subclause "a" of clause 1 of article 20 of this law.

#### **Article 15. Acceptance of Payment Order**

1. Except as provided in clause 4 of this article, a receiving bank (other than the beneficiary's bank) accepts a payment order when it executes the payment order.

2. Except as provided in clauses 3 and 4 of this article, a beneficiary's bank accepts a payment order:

- a) when the bank pays the beneficiary or notifies (orally, electronically, or in writing) the beneficiary of receipt of the payment order or that the account of the beneficiary has been credited with respect to the payment order, unless the notice indicates that funds may not be used by the beneficiary until the sender pays the amount of payment order or that the bank is rejecting the order (article 16),
- b) when the sender pays the amount of payment order to the beneficiary's bank, or
- c) the opening of the next business day of the bank following the payment date stated in the payment order if, at that time, the sender has paid the bank the amount of payment order or the credit balance in the sender's account covers the amount of the payment order, unless the payment order was rejected before the opening of that business day or is rejected:
  - within one hour after the opening of the business day of the beneficiary's bank, or.

- within one hour after the opening of the next business (working) day of the sender following the payment date stated in the payment order if the business (working) day of the sender starts later than the business day of the receiving bank.

3. Acceptance of a payment order cannot occur before the order is received by the receiving bank. Acceptance by the beneficiary's bank does not occur under subclauses 2 and 3 of clause 2 of this article, if the beneficiary designated in the payment order does not have an account with the bank, or the beneficiary's account stated in the payment order has been closed, or the bank is not permitted by law to receive credits for the beneficiary's account.

4. A payment order issued to the payer's bank cannot be accepted until the payment date if the bank is the beneficiary's bank or the execution date if the bank is not the beneficiary's bank. If the payer's bank executes the payment order before the execution date or pays the beneficiary before the payment date stated in the payment order and the payer subsequently cancels the payment order pursuant to article 17 of this law, the payer is not obliged to pay the bank the amount of payment order and the bank may claim that amount against the beneficiary in order established by law.

5. Acceptance of payment order precludes a later rejection of the order.

### **Article 16. Rejection of Payment Order**

1. Receiving bank may reject a payment order by a notice transmitted to the sender (orally, electronically, or in writing). The payment order is deemed rejected when the notice is received.

2. If a receiving bank (except the beneficiary's bank) fails to execute the payment order of the sender or executes it improperly, the bank is obliged to pay interest to the sender on the amount of payment order for the period between the execution date and the day the payment order is canceled, including, if:

- a) the credit balance in sender's account on the execution date is sufficient to execute the payment order, and
- b) the payment order is not rejected until the end of the execution date, and
- c) the account in question of the sender does not bear interest.

If the credit balance in sender's account decreases (for the period between the execution date and the day the sender receives the notice of rejection, counting the final day of the period as an elapsed day), the amount of interest which shall be paid by the receiving bank for the period in question is reduced accordingly.

3. Unaccepted payment order is deemed to be rejected at the time:

- a) the receiving bank's banking license is withdrawn or voided if the bank is not the beneficiary, or
- b) a bankruptcy procedure is initiated against the receiving bank: a tutor, a preliminary tutor or a liquidator is appointed
- c) the receiving bank stops or refuses to make payments or notifies the sender of it.

4. Rejection of a payment order precludes its later acceptance.

### **Article 17. Cancellation of Payment Order. Acceptance of Cancellation Order**

1. Cancellation of payment order means termination of transfer of the amount of payment order provided that that amount is immediately reimbursed to the sender. If a payment order is canceled its acceptance is annulled and the rights and obligations of parties to funds transfer resulting from the acceptance are terminated.

A payment order may be canceled pursuant to this law pursuant to a cancellation order issued by the sender or a court.

2. A cancellation order may be transmitted to the receiving bank (orally, electronically, or in writing) in order established by agreement between the sender and the receiving bank or by a funds-transfer system rule. Requisites of cancellation order may be established by an agreement or a funds-transfer system rule.

3. Acceptance of cancellation order means obligation to cancel the payment order. Acceptance of cancellation order precludes later acceptance of payment order.

4. A cancellation order is effective and shall be accepted if:

- a) it complies with requirements stated in clause 2 of this article, and
- b) the receiving bank receives it at a time and in a manner affording the bank an opportunity to take appropriate action before the bank accepts the payment order.

5. After a payment order has been accepted, the cancellation order shall be accepted in cases provided for in clauses 6 and 7 of this article, if the receiving bank agrees to accept it or a funds-transfer system rule allows cancellation without agreement of the receiving bank.

6. A cancellation order canceling a payment order accepted by a receiving bank other than the beneficiary's bank, shall not be accepted unless an appropriate cancellation order issued by the receiving bank is accepted by the next receiving bank.

7. A cancellation order canceling a payment order accepted by the beneficiary's bank shall not be accepted unless this payment order was issued:

- a) in execution of a payment order which was not issued by a person mentioned as sender or by his authorized representative, or
- b) because of a mistake by a sender:
  - the sender has issued a duplicate of a payment order previously issued by him, or
  - the payment order designates by error a beneficiary not entitled to receive payment from the payer, or
  - the payment order designates by error an amount greater than the amount the beneficiary was entitled to receive from the payer.

If the payment order is canceled, the beneficiary's bank is entitled to claim against the beneficiary any amount paid to the beneficiary in order established by law.

8. An unaccepted payment order is deemed to be canceled at the close of the fifth business day after the execution date or payment date stated in the payment order.

9. Unless otherwise provided in an agreement or in a funds-transfer system rule, if a cancellation order canceling an accepted payment order was accepted according to clauses 5, 6 and 7 of this article, the sender shall compensate the bank for any loss and expenses incurred by the bank as a result of the cancellation or attempted cancellation of the payment order.

10. A payment order is revoked by the death, legal incapacity or partial capacity, reorganization or liquidation of the sender, if the receiving bank is aware of above-mentioned facts before acceptance of the payment order and has opportunity to take necessary action.

11. An agreement or a funds-transfer system rule is effective to the extent it conflicts with clause 7 of this article.

### **Article 18. Duty of Receiving Bank to Accept the Payment Order**

1. A receiving bank is not obliged to accept a payment order unless an agreement concluded with a sender or a funds-transfer system rule provides such an obligation.

2. Liability based on acceptance, established by this law, arises only when acceptance of a payment order occurs as stated in article 15 of this law. Bank's liability is limited to that provided in this law, unless otherwise provided by agreement or funds-transfer system rule. Bank's liability established by this law may not be reduced by agreement or funds-transfer system rule.

3. A receiving bank is not the representative (agent) of the sender of accepted payment order or beneficiary designated in the payment order.

## **CHAPTER 3**

### ***EXECUTION OF SENDER'S PAYMENT ORDER BY RECEIVING BANK***

#### **Article 19. Execution of Payment Order and Execution Date**

1. A payment order is deemed to be executed by the receiving bank (other than the beneficiary's bank) when the bank issues a payment order in execution of the payment order received by the bank. A payment order received by the beneficiary's bank can be accepted but cannot be executed.

2. The date of execution of payment order is the day on which the receiving bank receives a payment order or the following day on which the receiving bank issues or may issue payment orders in execution of the sender's payment order.

The date of execution of payment order cannot be earlier than the day the payment order is received.

If the payment order states only a payment date, the execution date is the payment date or a business day on which execution is necessary to allow payment to the beneficiary on the payment date.

#### **Article 20. Obligations of Receiving Bank in Execution of Payment Order**

1. Except as provided in clauses 2, 3 and 4 of this law, in executing a payment order accepted in compliance with article 15 of this law the receiving bank is obliged:

- a) to issue, on the execution date, a payment order complying with the sender's payment order and to follow the requirements of the sender's payment order concerning the means of its transmission as well as intermediary banks or funds-transfer system chosen to carry out the transmission.
- b) to transmit its payment order by the most expeditious available means, if the sender's payment order provides such a requirement. If a sender's payment order states a payment date but does not state an execution date, the receiving bank is obliged to transmit its payment order at a time and by means necessary to allow payment to the beneficiary on the payment date or as soon thereafter as is feasible.

2. Unless otherwise provided by sender's payment order, a receiving bank executing a payment order may, acting in good faith, independently choose intermediary banks or funds-transfer system.

3. If a particular means of transmission is stated in a payment order, the receiving bank is obliged to issue its payment order by the means stated or by any means as expeditious as the means stated.

4. A receiving bank may not be rewarded for its services at the expense of the amount of payment order, unless the sender agrees to it.

#### **Article 21. Erroneous Execution of Payment Order**

1. If a receiving bank executes the payment order of the sender:

- a) by issuing a payment order in an amount greater than the amount of the sender's payment order, or
- b) by issuing a duplicate of a payment order previously issued by the bank, the sender is obliged to pay the receiving bank only the amount of payment order pursuant to clause 2 of article 25 of this law, if other conditions established by that clause are satisfied. The bank is entitled to claim against the beneficiary, in order established by law, the difference between the amount received under erroneous payment order and the amount of sender's payment order.

2. If a receiving bank executes the sender's payment order by issuing a payment order in an amount less than the amount of the sender's payment order, the sender is obliged to pay the receiving bank the amount of sender's payment order pursuant to clause 2 of article 25 of this law, if:

- a) other conditions established by clause 2 of article 25 are satisfied, and
- b) the receiving bank corrects the mistake by issuing an additional payment order for the benefit of the beneficiary designated in the sender's payment order.

If the receiving bank does not correct the error, the sender of the payment order accepted by the receiving bank is obliged to pay the receiving bank only the amount of the erroneous payment order.

This rule does not apply if the receiving bank executes the sender's payment order by issuing a payment order in an amount less than the amount of the sender's payment order on account of a payment (compensation) of its (receiving bank's) services and charges pursuant to instruction of the sender.

3. If a receiving bank executes the sender's payment order by issuing a payment order to a beneficiary not designated in the sender's payment order and the funds transfer is completed on the basis of erroneous payment order, the sender of the payment order that was erroneously executed and all previous senders are not obliged to pay the amounts of payment orders they issued. The bank that issued the erroneous payment order is entitled to claim, in order established by law, the amount of its payment order against the beneficiary designated in that payment order.

#### **Article 22. Duty of Sender to Report Erroneously Executed Payment Order**

If the sender of a payment order that is erroneously executed, as stated in article 21 of this law, receives notification (orally, electronically, or in writing) from the receiving bank that the payment order was executed or that the sender's account was debited, the sender is obliged to discover the error and immediately notify

the receiving bank of it as soon as possible but within a period of time not exceeding sixty days after the above-mentioned notification was received. Otherwise, the sender loses his right to receive interest on any amount refundable to it under clause 3 of article 25 of this law for the period before the receiving bank discovers its error. The bank is not entitled to claim any recovery from the sender following a non-fulfillment or improper fulfillment of the sender's duty stated in this article.

### **Article 23. Liability for Improper Execution or Failure to Execute Payment Order**

1. If a failure to execute or an improper execution by a receiving bank of its duty stated in article 20 of this law results in delay in payment to the beneficiary, the receiving bank is obliged to pay interest on the amount delayed to either the payer or the beneficiary of the funds transfer.

2. If a failure to execute or an improper execution by a receiving bank of its duty stated in article 20 of this law results in non-completion of the funds transfer, or failure to use an intermediary bank designated by the payer, or issuance of a payment order that does not comply with the terms of the payment order of the payer, the receiving bank is obliged to pay the payer damages resulting from the failure to execute or improper execution, to the extent not covered by clause 1 of this law.

3. In cases provided by clauses 1 and 2 of this article, the receiving bank is obliged to pay damages caused to the sender resulting from the failure to execute or improper execution of his obligations, including all expenses made by the sender together with lawyer's fees.

4. If a receiving bank fails to accept a payment order it was obliged by agreement to accept, in the absence of grounds for rejection or non acceptance provided by agreement, the receiving bank is obliged to pay the sender damages resulting from non acceptance, including lawyer's fees.

5. The liability of a receiving bank under this article may not be strengthened by agreement or funds-transfer system rule.

## **CHAPTER 4**

### ***PAYMENT OF PAYMENT ORDER***

#### **Article 24. Payment Date of Payment Order**

Payment date of a payment order means the business day on which the amount of the payment order is payable to the beneficiary by the beneficiary's bank.

The payment date may be determined by sender's payment order but cannot be earlier than the day the payment order is received by the beneficiary's bank.

The payment date is the day the payment order is received by the beneficiary's bank, unless the payment day is determined by the payment order.

#### **Article 25. Obligation of Sender to Pay Receiving Bank**

1. Acceptance of the payment order by the beneficiary's bank obliges the sender to pay the amount of the payment order, but the sender is not obliged to pay the amount of the payment order until the payment date.

2. Except as provided in clause 4 of this article and in article 22 of this law, acceptance of the payment order by the receiving bank (other than the beneficiary's bank) obliges the sender to pay the amount of the sender's order, but the sender is not obliged to pay the amount of the payment order until the execution date of the sender's payment order. The sender in question is excused from the obligation to pay the amount of its payment order to the receiving bank if the funds transfer is not completed by acceptance by the beneficiary's bank of a payment order for the benefit of the beneficiary designated in the payment order.

3. A receiving bank is obliged to refund the amount paid by the sender if the sender was not obliged to pay that amount. Except as provided in articles 10 and 22 of this law, interest is payable on that amount from the date of payment of that amount by the sender to the receiving bank.

4. If:

- a) a funds transfer is not completed by acceptance by the beneficiary's bank of a payment order for the benefit of the beneficiary designated in the payment order, and
  - b) an intermediary bank is obliged to refund the amount of payment order as stated in clause 3 of this article but does not fulfill that obligation based on the grounds provided by clause 3 of article 16 of this law or by other law, a sender that executed a payment order pursuant to an instruction to route the funds transfer through that intermediary bank (article 20, clause 1, subclause "a"), is entitled to claim the amount of payment order against the sender of that payment order. A sender that issued the first instruction requiring routing through that intermediary bank is subrogated to the right of the bank that paid the intermediary bank to refund as stated in clause 3 of this article.
5. The right of the sender to be excused from the obligation to pay (clause 2) or to receive refund (clause 3) may not be varied by agreement or funds-transfer system rule.
6. This article applies unless otherwise provided in articles 11 and 13 of this law.

### **Article 26. Payment by Sender to Receiving Bank**

1. Sender's obligation to pay the receiving bank, under article 25 of this law, is deemed to be fulfilled if the payment occurs pursuant to this article.
2. If the sender is a bank, payment is deemed to be occurred when the receiving bank receives final settlement of the obligation through a Central Bank or through a funds-transfer system.
3. If the sender is a bank and the sender credited an account of the receiving bank with the sender or in another bank, payment is considered to be occurred when the credit is withdrawn or (if the credit is not withdrawn) at the end of the day on which the credit is withdrawable and the receiving bank learns of that fact.
4. If the receiving bank debits an account of the sender with the receiving bank, payment is deemed to be occurred when the debit is made to the extent the credit balance in the account is sufficient to satisfy the claims of the receiving bank.
5. If the sender and receiving bank are members of a funds-transfer system that nets obligations multilaterally among participants, sender's payment is deemed to be occurred when the receiving bank receives final settlement of the obligations in accordance with the rules of the system.
6. If an agreement between the sender and the receiving bank states that mutual obligations, under article 25 of this law, are set off, sender's payment is considered to be occurred when the setoff is carried out in order established by that agreement, to the extent of the setoff.
7. In a case not covered by this article the time when sender's obligation to pay the receiving bank, under article 25 of this law, is carried out, is governed by civil legislation of the Republic of Armenia.

### **Article 27. Obligation of Beneficiary's Bank to Pay and Give Notice to Beneficiary**

1. A beneficiary's bank is obliged to pay the beneficiary the amount of the payment order accepted by the beneficiary's bank on the payment date, except as provided in article 17 of this law and clause 4 of article 28 of this law. The beneficiary's bank that accepts a payment order after the close of the funds-transfer business day is obliged to pay the beneficiary the amount stated in the payment order on the next funds-transfer business day.

A beneficiary's bank is obliged to compensate the beneficiary for all damages resulting from the non-fulfillment or improper fulfillment by the beneficiary's bank of its obligation to pay the beneficiary, unless the bank proves that the failure to fulfill or improper fulfillment of its obligation owed to the beneficiary results from a reasonable doubt concerning the right of the beneficiary to payment.

2. If under the payment order accepted by the beneficiary's bank the amount of the payment order shall be paid (credited) to an account of the beneficiary in the beneficiary's bank, the latter is obliged to notify the beneficiary (orally, electronically or in writing) of receipt of the payment order before the beginning of the day following the payment date. If the amount of the payment order shall not be credited to an account of the beneficiary, the beneficiary's bank is required to notify the beneficiary only if notice is required by the payment order.

3. A beneficiary's bank that fails to notify the sender, as stated in clause 2 of this article, or notifies it with delay, is obliged to pay interest to the beneficiary on the amount of the payment order. Interest is added from the beginning of the day following the payment date until the day the beneficiary is notified. The beneficiary's

bank is not liable for damages suffered by the beneficiary resulting from failure to notify or late notification to beneficiary by beneficiary's bank, except lawyer's fees and legal expenses with respect to litigation concerning the payment of interest provided by this clause.

A beneficiary is deemed to be notified at the time an appropriate notification or an account statement is sent to the beneficiary or the beneficiary is otherwise notified of receipt of payment. A beneficiary may be notified by telephone or other means of communication. Notice may be sent to beneficiary by mail (by registered letter or any other reliable letter). A bank is required to choose and use a means of notification that ensure receipt of notice by the beneficiary.

4. The right of a beneficiary to receive payment and damages as stated in clause 1 of this article may not be varied by agreement or a funds-transfer system rule. The right of a beneficiary to receive a notification and to be paid interest as stated in clauses 2 and 3 of this article may be varied by agreement or by a funds-transfer system rule if the beneficiary is notified of the appropriate provision of the agreement or of the rule before initiation of the funds transfer.

### **Article 28. Payment by Beneficiary's Bank to Beneficiary**

1. If the beneficiary's bank credits an account of the beneficiary mentioned in the payment order, the obligation of the beneficiary's bank under clause 1 of article 27 of this law is deemed to be fulfilled when and to the extent:

- a) the beneficiary is notified, as stated in clause 2 of article 27, of the beneficiary's right to withdraw the amount credited to its account, or
- b) the bank applies the amount of payment order to a debt of the beneficiary, as stated in article 31 of this article, or
- c) makes the amount stated in the payment order available to the beneficiary.

2. If the beneficiary's bank credits an account of the beneficiary but does not execute the payment, the time when obligation of the beneficiary's bank is fulfilled under article 27 of this law is governed by civil legislation of the Republic of Armenia.

3. Except as stated in clause 4 of this article, a provision of the agreement concluded with the beneficiary, under which the bank is entitled to claim against the beneficiary the amount of payment order paid to the beneficiary, if the beneficiary's bank does not receive the amount of payment order from the sender, is null and void.

4. A funds-transfer system rule may provide conditional payments made to beneficiaries until receipt by the beneficiary's bank of the amount stated in the payment order accepted by the beneficiary's bank. If conditional payments, provided by a funds-transfer system rule, are made to a beneficiary, the latter is obliged to pay back the amount received, if:

- a) before the funds transfer is initiated both the beneficiary and the payer are notified that the payment is conditional, and
- b) the payer's bank, the beneficiary's bank and the beneficiary agreed to apply rules providing conditional payments, and
- c) the beneficiary's bank was not paid by the sender the amount of payment order that it accepted.

If the beneficiary is obliged to refund payment to the beneficiary's bank as stated in first paragraph of this clause, acceptance of the payment order by the beneficiary's bank is invalidated, the payment order is canceled and the payer's payment to the beneficiary under article 29 of this law is deemed to be not executed.

### **Article 29. Payment by Payer to Beneficiary. Execution of Basic Obligation**

1. Except as provided in article 17 of this law and clause 4 of article 28 of this law, payer's payment to beneficiary is deemed to be executed at the time a payment order for the benefit of the beneficiary is accepted by the beneficiary's bank in an amount equal to the amount of the payment order accepted by the beneficiary's bank, but not more than the amount of the payer's payment order.

2. If a payer's payment under clause 1 of this article is made to satisfy payer's obligation owed to the beneficiary (basic obligation), the obligation is deemed to be fulfilled, unless:

- a) the payment under clause 1 of this law was made by means or in a form conflicting with the contract generating the basic obligation, and

- b) the beneficiary, immediately after receiving notice of receipt of the payment order by the beneficiary's bank, notified the payer of the beneficiary's refusal to receive payment, and
- c) the amount of the payment order was not withdrawn by the beneficiary from its account or applied to other debts of the beneficiary, and
- d) the beneficiary will suffer a damage because of a failure to execute the payment in compliance with the contract.

If a payer's payment under clause 1 of this article does not result in fulfillment of the basic obligation, the payer is subrogated to the rights of the beneficiary to receive payment from the beneficiary's bank under article 27 of this law.

3. If the amount of payment order accepted by the beneficiary's bank is less than the amount of payer's payment order on account of compensation for services of one or more receiving banks, payer's basic obligation is deemed to be executed in the amount of the payment order sent by the payer, unless upon demand by the beneficiary the payer does not pay the beneficiary the amount deducted under this clause.

4. Rights and obligations of the payer and of the beneficiary under this article may be varied only by agreement between them.

## CHAPTER 5

### *ADDITIONAL PROVISIONS*

#### **Article 30. Agreements and Funds-Transfer System Rules**

1. Rights and obligations of parties to a funds transfer may be varied by agreement concluded between them, except when these variations are prohibited by this law.

2. For the purpose of this law funds-transfer system rules means rules that:

- a) are established by the Central Bank and regulates rights and obligations of banks that are parties to transfers carried out by means of the Central Bank's funds-transfer system, or
- b) are established by banks and regulates issuance of payment orders by means of banks' funds-transfer system as well as rights and obligations of parties with respect to issuance of payment orders.

3. Except as otherwise provided in this law, funds-transfer system rules may change mutual rights and obligations of banks members of funds-transfer system. Rights and obligations of parties other than funds-transfer system members may also be changed by funds-transfer system rules as stated in clause 4 of article 27, clause 3 of article 28, article 35 of this law.

#### **Article 31. The Right of Beneficiary's Bank to Setoff**

1. If a beneficiary's bank has received a payment order under which the beneficiary's account in that bank is to be credited and the beneficiary owes a mature obligation to that bank, the latter is entitled to unilaterally set off the amount of the received payment order against that obligation after crediting the beneficiary's account in order established by law.

2. A beneficiary's bank is obliged to apply the amount credited to satisfy the claims against the beneficiary that are to be satisfied without recourse to the court, if the beneficiary's bank is aware or is required to be aware of the existence of such a claim. Claims that are to be satisfied without recourse to the court are satisfied on beneficiary's account in order established by law.

#### **Article 32. Seizure or Arrest Orders Served on Receiving Banks. Court Decisions Prohibiting Funds Transfer**

- 1. In order established by legislation of the Republic of Armenia a court decision may prohibit only:
  - a) a payer from issuing a payment order,
  - b) a payer's bank from accepting payment orders of the payer,

- c) the beneficiary's bank from releasing funds of accepted payment order to the beneficiary,
- d) the beneficiary from withdrawing from its account the amount of payment order accepted by the bank.

A court may not otherwise intervene in execution of funds transfer or prohibit other actions with respect to a funds transfer.

2. If a sender's account in a receiving bank is seized or arrested in order established by legislation of Republic of Armenia and the receiving bank accepts the payment order of the sender, the receiving bank is entitled to debit the account to the amount of the payment order on a priority basis, unless the account is seized or arrested at a time and in a manner affording the bank an opportunity to reject the payment order or take other necessary actions before accepting the payment order, or the sender otherwise paid the receiving bank the amount of payment order.

3. Funds transferred by a payer to a beneficiary may be seized or arrested only at the beneficiary's bank.

### **Article 33. Account. Credit Balance in Account. Priority of Execution of Payment Orders**

1. For the purpose of this law, the account means a bank account of a party to funds transfer that is to be debited to the amount of payment order pursuant to customer's payment order or separate instruction. If a customer does not designate an account in a payment order and does not otherwise give instructions with respect to the account, the amount of payment order may be debited from any of customer's accounts with the bank, unless debiting the account to the amount of payment order is inconsistent with the contract of bank account or other restrictions on the use of the credit balance in account.

2. For the purpose of this law, the "credit balance in account" means funds in the account (time or on-demand) that may be withdrawn or otherwise used by the accountholder (customer) or a person authorized by it without additional restrictions. For the purpose of this clause time nature of an account is not deemed to be an additional restriction, unless otherwise provided by the contract of bank account.

3. If a bank has received more than one payment order that are payable from the sender's account, the bank may debit the sender's account with respect to execution of payment orders in any sequence.

4. If an accountholder withdraws funds credited to his account or applies them to a debt of the accountholder, funds first credited to the account are deemed to be first withdrawn or applied.

### **Article 34. Rate of Interest and Method of Calculation of Interest**

1. Rate of interest payable by a receiving bank in cases stated in this law is determined by an agreement concluded between the sender and receiving bank or by a funds-transfer system rule.

2. If the rate of interest payable by a receiving bank to the sender is not determined by an agreement concluded between the sender and receiving bank or by a funds-transfer system rule, the interest is calculated:

- a) by multiplying the appropriate amount by the annual refinancing rate fixed by the Central Bank and dividing the product by 360, or
- b) by multiplying the appropriate amount by the average rate offered by the receiving bank for time deposits and dividing the product by 360, in addition, in determining the amount of interest payable by the receiving bank, the latter applies a calculation method, determined either in subclause "a" or "b" of this clause, which results in a greater amount of payable interest.

### **Article 35. Legal Regulation of Funds Transfers Between Banks of the Republic of Armenia and Foreign Banks**

1. Unless otherwise provided by agreement between parties, funds transfers between parties that are residents and non-residents of the Republic of Armenia are regulated in accordance with the legislation of the state of incorporation of the receiving bank.

2. Relations between the beneficiary and the beneficiary's bank with respect to funds transfers are regulated in accordance with the legislation of the state of incorporation of the beneficiary's bank, unless otherwise provided by an agreement or a funds-transfer system rule.

## CHAPTER 6

### *TRANSITIONAL PROVISIONS*

#### **Article 36. Entry into Force of the Law**

1. This law shall enter into force upon the date of publication.
2. Within two months from entry into force of this law, the Central Bank shall determine maximum time limits for carrying out funds transfers between banks in Armenia and liability of banks for violating these time limits.

*President of the Republic of Armenia,  
LEVON TER-PETROSSYAN  
January 7, 1997, Yerevan  
AL-100*