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BILL OF EXCHANGE AS AN ELEMENT OF CORPORATE FINANCE

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Abstract

The article studies and examines the relationship between the bill and corporate finance. To make a profit, it is not enough for an entity to have its own funds, which may not be enough; in such a situation, not even competent financial management can help. In this case, the receipt of third-party funds is necessary to cover the costs requested by the company at any given time. Cash for current payments can obviously be borrowed from financial institutions such as banks or factoring companies, or a corporate loan can be obtained from a corporate counterparty. In addition to these methods, such a method of business financing as a bill (both simple and transferable) is often used in financial turnover. Corporate finance refers both to the cash reserves of the companies themselves (in the strict sense) and to all possible social relationships arising from the creation and distribution of these cash reserves (in the broad sense). Furthermore, the term corporate finance is identified with financial management, as well as financial science, as a specific area of scientific knowledge. In all definitions of corporate finance there is a clear and unambiguous link to the financial funds of legal entities. These corporate money market funds have a borrowed share, it reflects the funds received in debt. On a bill of exchange, a company can be both a drawer (creditor) and a bearer of notes or an acceptor (borrower).

Keywords: Bill, commercial credit, corporate finance, promissory note credit

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1. Introduction

The financial system has various components. One of these elements is business financing. As a previously published article by the author shows, the state of the finances of legal entities, generally, actively affects the financial system. The legal regulation of legal relationships on a commercial loan can affect the entire financial system of the state. This conclusion stems from the fact that commercial loans are a component of business financing (Startseva, 2020). And it is natural to assume the impact on the financial system of bill circulation in the state and the level of its regulation in regulatory acts. The bill was originally a financial instrument. It made it possible to replace the transfer of money in settlements in the market of transferring a bill, which was safer and cheaper than transporting cash over long distances. This study focuses on the relationship between economic and legal structures such as corporate finance, commercial credit and bill of exchange.

2. Problem Statement

Conducting scientific research in the field of legal relations is necessary for both Russian law and international law. These studies are also of great importance to the national legislation of other states. The bill is an instrument of international transactions, both at the corporate and at the state level. As a commercial credit instrument, a bill formalizes the relationship resulting from a commercial loan. The bill also serves as an additional guarantee for the repayment of a business loan. Scientific research on the regulation and circulation of bills is quite extensive, both in law and in economics. But at the same time, there is currently no systemic research into the relationship between a bill, trade credit, and corporate finance.

3. Research Questions

The following issues are the focus of this study. How do commercial loans compare with business loans? What is the essence of the legal relationships of the bill? What is meant by promissory note and bill? What are the legal rules for the circulation of bills? How do business loans and bills compare? How do a bill of exchange and a corporate finance compare? Solving these questions will help you to achieve your research goals.

4. Purpose of the Study

The following objectives have been identified for this study. Disclosure of the relationship between trade credit and corporate finance. Definition of bill related to legal relations. Consideration of scientific studies that have developed diverse approaches to the concept of promissory notes. Description of the legal rules governing the circulation of bills. Determining the relationship between a business loan and a bill, information on the relationship between bills of exchange and corporate finance. Achieving these goals will reveal the ratio of promissory notes and corporate finance.

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5. Research Methods

The author used a wide range of research methods to complete this study. Methods of comparison and analysis were used to reveal the relationship between trade credit and corporate finance. To define the concept of the bill, such methods as generalization, comparison, analysis, formal legal, comparative legal were used. The study of the legal relationship of bills was based on formal and comparative legal methods. The description of the legal regulation of the circulation of invoices was based on methods such as generalization and analysis. To determine the relationship between a corporate loan and an invoice, comparison, synthesis, analysis, formal law and comparative law methods were used. To reveal the relationship between bills and company financing, formal and comparative legal methods were used, as well as methods of generalization, comparison, synthesis and analysis.

6. Findings

As the introduction notes, the financial system has several components and one of them is business finance. The state of an entity's finances, generally, actively affects the financial system. Legal regulation of legal relations on a commercial loan, in particular, can affect the entire financial system of the state. You can come to this conclusion by analyzing the ratio of commercial credit as one of the elements of corporate finance. More details on a commercial loan, its legal nature, its regulations, the independence of a commercial loan agreement and the accessories of a commercial loan obligation can be found in a previously published study (Startseva & Deltsova, 2019).

If we consider the history of the appearance of bills in financial circulation, we can see that a bill served as a means of transferring money from one territory to another. This method of money transfer replaced the transport of cash, which stimulated the development of both commercial and financial turnover. The basis for this transfer was originally a barter transaction between a banker and a merchant. Money was exchanged for a letter, and then in the new territory the letter was exchanged for cash. As time went by financial turnover developed, the exchange operation was replaced with a credit operation (Nersesov, 1896). The bill was originally used as a credit instrument (Lawson, 2020). At the end of the 19th century, a bill became an abstract obligation. It is also strictly formalized. It can be transferred by approval. The fact of such a transfer makes the bill of exchange a more guaranteed obligation, since there is then a collective responsibility of all the persons who indorsed the bill. Back in time the bill was one of the main forms of credit transactions. Its importance is reflected in the fact that bills lightened financial turnover. The bill allowed a freer movement of capital, including capital that was previously a "dead weight". We must also note that in the olden days, the bill of exchange, in addition to being a guarantee, also exhibited characteristic features of money such as the ability to buy and pay. The bill also had the properties of a commodity. This situation was criticized by civil law legists of the time (Shershenevich, 2019).

At the end of the before last century and the beginning of the last century, the bill was an important commercial tool in international relations. Countries that had debts on trade transactions voluntarily paid with bills, which replaced currency and became part of the state financial system. For example, in the XVIIIth century, the European settlement system extensively used bills, and interest and exchange rates

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depended on demand for them (Nogues-Marco, 2018). At the beginning of the XX century, promissory notes significantly affected the activities of credit institutions (Suzuki, 2020).

The bills have been divided into bills and promissory notes. This division has survived to this day. Modern legislation also divides them into bills and promissory notes. The basis of legal regulation on the circulation of bills of exchange in the Russian Federation consists of two national federal laws: the Civil Code of the Russian Federation and the Federal law of 11.03.1997 N 48-FZ "On bills of exchange and promissory notes". In addition to two national laws, bills of exchange are also governed by international law (Convention providing a uniform law for bills of exchange and promissory notes, 1930).

The bill of exchange in Russian law is a multifaceted legal phenomenon. According to the established tradition in Russian civil law, the bill is studied in various aspects. In the Civil Code, it is defined as a security (Articles 128, 142 of the Civil Code of the Russian Federation (part two) from 26.01.1996 N 14-FZ). A bill of exchange can also be defined as a thing that is free in circulation. In this case, the bill is no longer considered as a security, but only as an object of civil rights. The following view of the is its legal nature as a transaction. It can also be considered as an obligation. Finally, it can be considered as a legal relationship. This situation in the legal regulation has led to the fact that when mentioning a bill of exchange, different subjects relate it to different concepts.

Currently, there is no legal definition of a bill of exchange. Until 2017, the definition of a bill of exchange was in Article 815 of the Civil Code of the Russian Federation (part two) from 26.01.1996 N 14-FZ. Now it is canceled. After such a change in the legal regulation, the legal regulation of bill circulation has become worse. The abolished norm did not reveal the essence of the concept of "promissory note". The rest of the promissory note legislation contains only instructions on the details of the bill and the procedure for exercising rights under the promissory note. After analyzing Section 2 of Chapter 7 of the main act of civil legislation, the bill can be attributed to documentary order securities (Civil Code of the Russian Federation (part two) from 26.01.1996 N 14-FZ). A bill of exchange certifies owner rights, if it contains all the necessary details. It is possible to realize or transfer the rights under the bill only upon its presentation. The definition of a bill of exchange from a legal point of view is relevant for both science and law enforcement.

The Geneva Conventions also do not define a bill of exchange. Their rules are outdated. The conventions do not ensure legal regulation taking into account modern realities and national characteristics. This current situation requires new legal regulation. Most countries have gone this way. An example is France, whose bill of exchange rules differ from the text of the Geneva Convention (Convention providing a uniform law for bills of exchange and promissory notes, 1930). In the Anglo-Saxon legal order, there is a bill of exchange legislation defining a bill of exchange.

One of the distinctive properties of the studied obligation - its abstractness. It is expressed in the following aspects. First, in the commission by the obligated person of actions on the bill in the absence of references to the basis of its issue (causa). Secondly, this person should not justify his refusal to pay with a personal attitude to the creditor. Third, the debtor cannot speak of the illegality of the holder's possession of the bill.

Another distinctive feature of the phenomena under consideration is its subjective composition. Only legal entities and individuals – non-public entities-can participate freely in the promissory note obligation.

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Public entities can only be a party to a bill of exchange obligation if the law explicitly specifies it. This rule is established in Article 2 of the Federal law of 11.03.1997 N 48-FZ "On bills of exchange and promissory notes". Consequently, legal entities whose property is public property are also limited in their participation in circulation of promissory notes.

In addition to the fact that the bill is a security, it is also a monetary obligation. The main feature of a monetary obligation in accordance with Article 307 of the Civil Code of the Russian - transfer of money. The subject of the obligation under study is also the payment of money to the bill holder. The difference between promissory note monetary obligations is the possibility of its expression in any currency, both national and foreign. The place in which such an obligation must be fulfilled is also different – the location (residence) of the payer (promissor, acceptor and domiciliant). The coincidence of the subject of a bill of exchange and monetary obligations has led to the fact that in business activities a bill of exchange is identified with a payment document.

If the person refuses to pay the bill, the creditor must make a protest at the notary. And only after that, he can apply to the court for debt collection. Protesting a bill of exchange is not the responsibility of the bill holder. If he does not exercise his right, this may lead to the termination of the obligation in question. The protest made at the notary can confirm any legal fact in the bill legal relationship (presentation for payment). A notarial protest has special force as evidence in court. The court can only assess the external signs of the protest-the form and content.

Based on the basic principles of civil law regulation, promissory note legal relations are regulated by special methods characteristic of promissory note law. The existence of such a relationship between civil and the bill legislation makes it possible to consider promissory note law as part of civil law.

The economic essence of the bill is expressed in its two economic functions – credit and settlement. In economic research, a bill of exchange is often defined as a way of issuing a trade loan. It often replaces the advance payment in a commercial loan. In addition, it can be used in the future to pay off the chain of debts. The promissory note helps to save the working capital of the entrepreneur for other purposes and to refuse additional bank lending. Therefore, this security is called "credit-settlement". The promissory note takes its roots as such in a trade loan. Economists distinguish the dual nature of the promissory note. First, it is distinguished by its nature as a security paper. Secondly, with the help of a bill of exchange, a trade loan is formed. Depending on what relations are drawn up with a bill of exchange, commodity and financial bills are distinguished. The first issue a deferred payment for the transfer of property. The second ones appear when there is no transfer of property, but simply there is a purchase and sale of a bill of exchange. In the second case, the bill refers to financial assets.

A bill of exchange establishes the drawer's obligation towards its holder to pay from the first to the last amount indicated on the invoice, on the deadline indicated therein. When it comes to business finance, both entity's finances and borrowed funds can be used in billing transactions. If a business receives a loan from its counterpart, it will act as a payee and use the borrowed funds in its business. If a business gives a business loan in the form of a deferred payment or down payment and sets that loan up as a promissory note, the business uses its funds to provide a business loan to a counterparty, which is formalized by a promissory note. If the business needs funds before the expiration of a commercial loan disbursement period, the business can still exercise its right, such as the right of a drawee, to transfer the bill by indorsing

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the next bill and obtaining necessary funds to carry out current activities. Considering the loan obligation, one can here hypothesize the replacement of the creditor in the commercial loan agreement, but in reality this replacement occurs because a bill of exchange is an abstract obligation and a business loan is resolved with the issuance of a bill of exchange. So there is an abstract bill of exchange obligation. Obviously, if a business loan is not issued with a bill of exchange, you can contact a factoring company or a bank to obtain a loan, but an invoice in this case is more optimal, as it saves time and money for the business.

The bill itself presupposes an acceptance of a third party: the retainer (acceptor). This third party in a bill deal agrees to pay a certain amount at a specific time to the holder of an invoice on behalf of the payee. First, a bill of exchange can perform two operations of a commercial loan at a time: the payee of the bill provides a deferred payment to the drawee, and the drawee extends a loan similar to the retainer, to which case two commercial loan obligations are replaced by a bill of exchange. As long-term practice of bills of exchange use by businesses in their financial activities, they are one of the most effective tools for making payments. Based on the analysis of the use of bills, it can be unequivocally assumed that the circulation of bills will only increase over time. This change in the circulation of bills is based on the exclusivity of a financial instrument such as the bill. For creditors, a bill is a reliable way to lend, thus increasing the financial stability of entities.

The peculiarity of a bill as an instrument in corporate finance activities lies precisely in the characteristics contained therein as in a title, which also has its own distinctive characteristics. First, it should be noted that it is abstract: the loss of link with the contractual obligation, the execution of which has been replaced by the issuance of a bill. That makes the bill a universal tool for corporate finance, as it can be applied to other operations and more than once (a bill can be reissued). In Russian financial and commercial turnover, a bill of exchange can replace money for payment or payment receipt. Such properties of a promissory note, as its unconditionality and its indisputability, lead to the fact that the issuer or the acceptor can in no way legally justify their reluctance to pay the bill. Finally, we can note the responsibility of all the people who will have affixed their signature on the invoice during its transfer to the last holder of the invoice. This responsibility is common and multiple. Recently, more and more opinions have been expressed about moving invoices from paper to digital format (Ponza et al., 2020). The goal of this is to optimize calculations and exchange documents (Rengamani et al., 2019).

Legal relationships of bills of exchange in civil law theory are defined as social relationships, which are governed by legal standards on bills and their circulation. Any person under civil law can participate in such public relations, however, in a bill he acquires special names: the drawee, the payee of the bill. Consequently, a bill of exchange relationship is a social relationship between specifically designated subjects of civil law: the drawee, the acceptor and the payee of a bill of exchange, which has a credit character and is governed by the rules of the law. The legal relationships of these instruments, by their nature, are credit and financial relationships. A bill of exchange, although is a security, at the same time acts as a financial instrument and, therefore, is one of the elements of business finance along with business loans and other elements of business finance. Bills are often classified as payment instruments.

7. Conclusion

This study presents an analysis of the relationship between commercial loans and corporate finance. Based on the analysis, it can be concluded that they are related as a private and general, trade credit is one of the elements of business finance. Bill relations are social public relationships between specifically designated civil law subjects: the drawee, the acceptor and the payee of the bill, which hold credit character and are governed by the rules of the bill. A bill of exchange or a promissory note, is a guarantee. A bill of exchange establishes the payee's obligation towards its drawee to pay from the first to the last amount indicated on the bill, on the deadline indicated therein. The bill presupposes the acceptance of a third party: the retainer (acceptor). This third party in a bill agrees to pay a certain amount, at a specific time, to the holder of an invoice on behalf of the drawee. The circulation of bills of exchange is regulated both by Russian law and international law. A bill of exchange can complete a business loan transaction. A bill of exchange can perform two operations at the same time as a commercial loan: the holder of the invoice provides for a deferred payment to the drawee, and the latter disburses a loan similar to the retained one, in this case two obligations of commercial loan are replaced by a mandatory bill of exchange. A bill of exchange, although it is a security, at the same time acts as a financial instrument and, therefore, is one of the elements of business finance along with business loans and other elements of business finance.

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