

BILL OF EXCHANGE

The bill of exchange or *lettre de change* (later known as the 'acceptance bill' and the draft) was simply an informal letter by which one merchant ordered his agent-banker in some other city to make payment on his behalf to another merchant in that distant city. The bill of exchange originated as a method of settling accounts in [international trade](#).

Arab [merchants](#) used a similar instrument as early as the 8th century AD, and the bill in its present form attained wide use during the 13th century among the Lombards of northern Italy, who carried on considerable foreign commerce. Because merchants (the buyers) usually retained their assets in banks in a number of [trading](#) cities, a shipper of goods (the seller) could obtain immediate payment from a banker by presenting a bill of exchange signed by the buyer (who, in so doing, had accepted liability for payment when due). The banker would purchase the bill at a discount from its full amount because payment was due at a future date; the purchasing merchant's account would be debited when the bill became due. Bills could also be drawn directly on the banks themselves. After the seller received his payment, the bill of exchange continued to function as a [credit](#) instrument until its maturity, independent of the original [transaction](#)