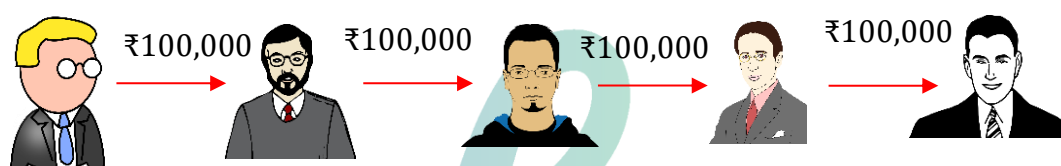


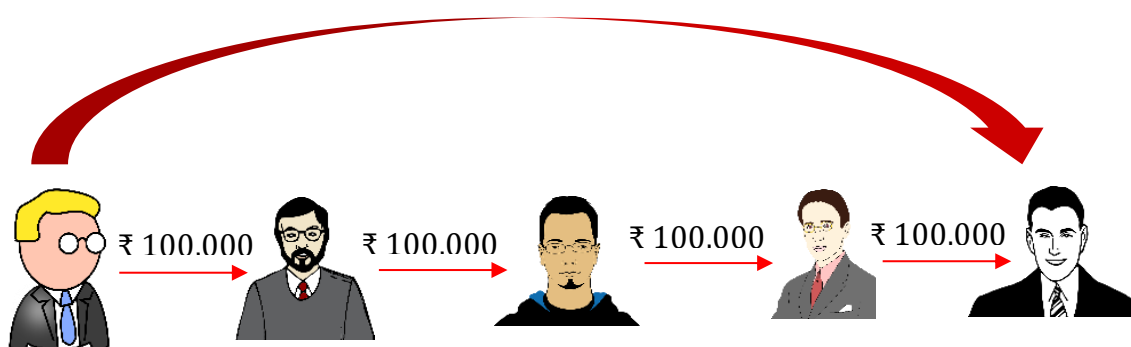
The Negotiable Instruments Act 1881

Introduction, Meaning, Definition and Features

When different persons form a uniform chain of indebtedness relationship, the various settlements may require multiple payments of money although inter-related. A negotiable instrument binds the entire channel into just one settlement between the ultimate creditor and principal debtor.



Negotiable Instrument means an instrument or document in writing, covering a financial indebtedness and proposing to convey such property in terms of rights and liabilities between different parties sharing indebtedness. The term negotiation or negotiable refers to the passage of such rights and liabilities.



There are instruments that are negotiable by law (notes, bills and cheques) and those negotiable by custom or trade practices (example: share warrants, delivery receipts, etc.). The law illustrates only three types of negotiable instruments, and any other instrument carrying similar features as those illustrated may also be treated as negotiable instruments.

Negotiability of Instruments

Negotiable by Law

- Promissory Notes
- Bills of exchange
- Cheques

Negotiable by Customs & trade practices

- Share warrants
- Bills of lading
- Lorry receipts etc.

Section 4- Promissory Note

It means an instrument in writing, containing an unconditional undertaking to pay a certain sum of money only to or to the order of a certain person, or to the bearer of the instrument.



Importance of “Only”

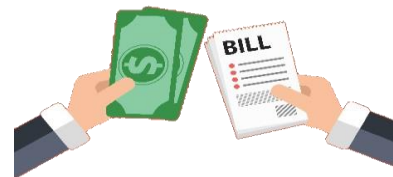
- The word ‘only’ as used in the definition requires a little elaboration. Only is inserted in such a manner that it could be applicable to money or person. What does it actually apply to – money or person?
- Is it that the instrument should be denominated only in terms of money?
- Is it that the instrument should be addressed only to a certain person?

Only Applies to both

- Both money and person should be ascertained features of an instrument

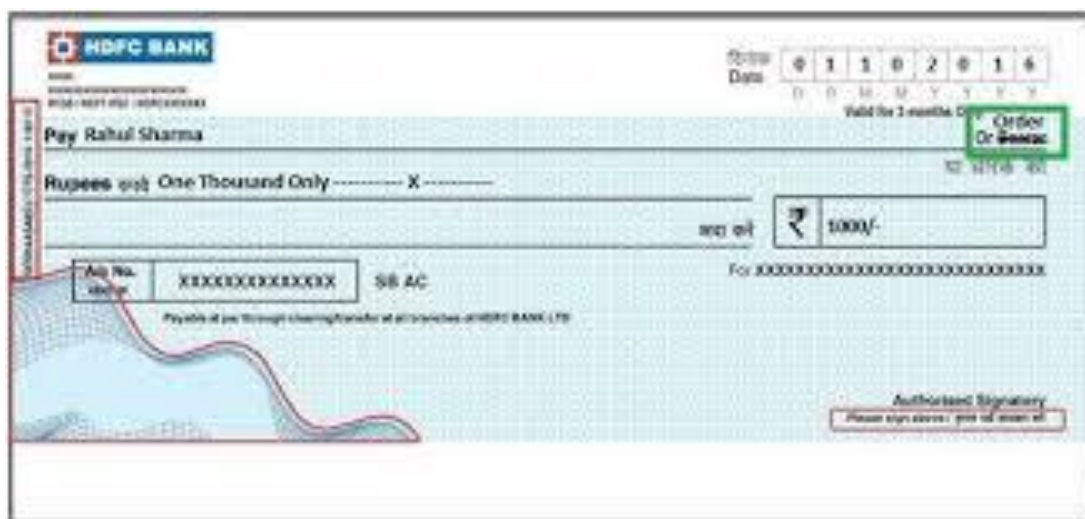
Section 5- Bill of Exchange

It means an instrument in writing, containing an unconditional order to pay a certain sum of money only to or to the order of a certain person, or to the bearer of the instrument.



Section 6- Cheque

- ❖ It means a bill of exchange, drawn on a specified banker and not made payable otherwise than on demand.
- ❖ Therefore, every cheque is a bill of exchange, whereas the vice versa need not be true.



The image shows a sample HDFC Bank cheque. The bank name 'HDFC BANK' is at the top left. The date is '01/10/2016'. The payee is 'Pay: Rahul Sharma'. The amount in words is 'Rupees 000 One Thousand Only'. The amount in figures is '₹ 1000/-'. The cheque number is 'XXXXXXXXXX'. The account type is 'SB AC'. The bank's MICR line is visible at the bottom. The 'Payable to' field is marked with a red wavy line. The 'Authorized Signatory' field is at the bottom right.

Negotiable Instruments

A Negotiable Instrument carries various features –

- It is a document in writing
- It functions as an alternative for monetary settlement in a trade transaction
- It is definitive and certain in terms and conditions
- It creates a guarantee contract and has legal validity having cognizance in a Court of law
- It purports to bind persons with rights and liabilities measured in financial terms
- It can be transferred from person to person
- It contains various prima facie terms and conditions which are together referred to as the apparent tenor of the instrument

Test Yourself at this Stage!

Is a currency note a promissory note?