Business law
Lecture-24

Acceptance – Section 7

A) Meaning:

The acceptance of a bill is the indication by the drawee of his assent to the order of the drawer. Section 7 states that an acceptance is the signature of the drawee of a bill who has signed his assent upon the bill and delivered it. Thus, an acceptor is the drawee who has signed his assent upon the bill and delivered it to the holder

B) Essentials of Valid Acceptance –

- ✓ In writing,
- ✓ Signed by the drawee or his agent,
- ✓ On bill of exchange,
- ✓ Completed by delivery to the holder.
- ✓ Writing the word 'Accepted' is immaterial.
- ✓ An oral acceptance or writing of the word 'Accepted' without the drawee's signature is not an acceptance.

C) Acceptor for Honor –

1) Meaning –

Undertaking by a third party to accept and pay (in part or in full) a bill of exchange that was dishonored, either by non-acceptance or by non-payment by the party on whom it was drawn. **Also called acceptance supra protest.**

2) How acceptance for honor should be made –

A person desiring to accept the bill for honor must declare in writing that he accepts under protest the protested bill for the honor of the drawer or a particular endorser whom he names.

3) Rights and liabilities of acceptor for honor –

a) He binds himself to pay the amount mentioned in the bill if drawee fails to pay.
b) Liability of acceptor for honor is conditional and it arise only when the drawee makes the default to pay.
c) He may recover all the losses and damages from the drawee.

Holder – Section 8

1) The "holder" of a promissory note, bill of exchange or cheque means any person entitled in his own name –
   a) to the possession thereof; **and**
   b) to receive or recover the amount due thereon from the parties thereto.
2) His rights and title are dependent on the transferor. He has a right to demand and receive but does not have a right to sue.

Business law
Lecture-24

Note –

- It is not every person in possession of the instrument who is called a holder.
- To be a holder, the person must be named in the instrument as the payee, or the endorsee, or he must be the bearer thereof.
- A person who has obtained possession of an instrument by theft, or under a forged endorsement, is not a holder, as he is not entitled to recover the instrument
- An agent holding an instrument for his principal is not a holder although he may receive its payment.
- The holder implies de jure (holder in law) holder and not de facto (holder in fact) holder.

Holder in Due Course – Section 9

A holder in due course is one who receives the instrument:

a) for consideration;
b) without notice as to the defect in the title of the transferor; i.e. in good faith; and
c) before maturity.

Note –

a) His rights and title are independent on the transferor.
b) He has a right to demand and receive and also have a right to sue.

Payment in Due Course – Section 10

a) Payment in due course refers to a payment in keeping with the evident tenor of the instrument, in good faith & without negligence to any person in possession thereof.

b) A payment will be regarded as a payment in due course if:

- Payment is done as per **apparent tenor** of instrument
- It is **made in good faith** & without negligence
- It is **made to the person who possesses the instrument** who is entitled as holder to obtain payment;
- **Payment is made in money & money only**.

Classification of Negotiable Instruments –

A) Bearer Instruments –

a) There are two important conditions for negotiable instruments to become payable to bearers.
   1) parties to the transactions must express it to be so payable; or
   2) The only endorsement for it should be an endorsement in blank.

b) A person who is a holder of a bearer instrument can obtain the payment of the instrument.

B) Order Instruments –

a) They are payable when the instruments expressly state them to be so.
b) They may be payable to order only to a specific person.
c) There should be no prohibition on their transferability.

C) Inland Instruments –

a) An inland instrument is one which is either:
   1) drawn and made payable in India, or
   2) drawn in India upon some persons resident , even though it is made payable in a foreign country

D) Foreign Instruments –

Business law
Lecture-24

a) Every instrument that is not inland automatically becomes a foreign instrument.
b) These instruments are drawn in a foreign country but may be payable within or outside India.
c) it must be drawn in India and made payable outside India and drawn on a person resident outside India.

E) Demand Instruments –

a) Negotiable instruments in which no time is mentioned is called as demand instrumnets.

F) Time Instruments –

a) Time instruments carry a fixed future date for payment.
b) Time instruments are payable at a fixed date in the future.

G) Ambiguous Instruments –

a) An ambiguous instrument is basically one that may be either a bill or a note for its holder.
b) Under such circumstances, the holder of such instruments may treat them either as bills of exchange or as promissory notes.
c) For example, sometimes the drawee may be a fictitious person or he may be incompetent to contract.

H) Incomplete instruments –

a) Incomplete instruments lack certain essential requirements of typical negotiable instruments.
b) In such cases, the holder of the instrument has the authority to complete it up to the amount mentioned therein.
c) This, in turn, results in the creation of legally binding negotiable instrument payable by law.
d) Not only the first holder but also any subsequent holder who procures such instruments can complete them.

When the amount stated in words and figures are different – Section 18

If the amount undertaken or ordered to be paid is stated differently in figures and in words, the amount stated in words shall be the amount undertaken or ordered to be paid.

Maturity – Section 22 23 and 24

A) Meaning of Maturity –

The maturity of a promissory note or bill of exchange is the date at which it falls due.

B) Days of grace –

a) Every promissory note or bill of exchange which is not expressed to be payable on demand, at sight or on presentment is at maturity on the third day after the day on which it is expressed to be payable.
b) All instruments except for the instrument payable on demand are entitled for **3 days grace** period.

> **Note –**
> 1) No grace period is allowed in the following cases –
>   - A cheque
>   - A bill or note payable 'at sight' or 'on presentment' or 'on demand', in which no time is mentioned
> 2) Where the instrument is payable on installment then each installment is entitled for 3 days grace period.

C) Calculation of days of maturity –

- Where a negotiable instrument is payable on specified date then it shall become payable on that specified date + 3 days of grace.