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Negotiable Instrument Act, 1881

Negotiable Instruments – Meaning, Types & Uses

Negotiable Instruments are written contracts whose benefit could be passed on from its original holder to a new holder. In other words, negotiable instruments are documents which promise payment to the assignee (the person whom it is assigned to/given to) or a specified person. These instruments are transferable signed documents which promises to pay the bearer/holder the sum of money when demanded or at any time in the future. As mentioned above, these instruments are transferable. The final holder takes the funds and can use them as per his requirements. That means, once an instrument is transferred, holder of such instrument obtains a full legal title to such instrument.

Types of Negotiable Instruments

Promissory notes

A promissory note refers to a written promise to its holder by an entity or an individual to pay a certain sum of money by a pre-decided date. In other words, Promissory notes show the amount which someone owes to you or you owe to someone together with the interest rate and also the date of payment. For example, A purchases from B INR 10,000 worth of goods. In case A is not able to pay for the purchases in cash, or doesn't want to do so, he could give B a promissory note. It is A's promise to pay B either on a specified date or on demand. In another possibility, A might have a promissory note which is issued by C. He could endorse this note and give it to B and clear of his dues this way. However, the seller isn't bound to accept the promissory note. The reputation of a buyer is of great importance to a seller in deciding whether to accept the promissory note or not

Bill of exchange

Bills of exchange refer to a legally binding, written document which instructs a party to pay a predetermined sum of money to the second(another) party. Some of the bills might state that money is due on a specified date in the future, or they might state that the payment is due on demand. A bill of exchange is used in transactions pertaining to goods as well as services. It is signed by a party who owes money (called the payer) and given to a party entitled to receive money (called the payee or seller), and thus, this could be used for fulfilling the contract for payment. However, a seller could also endorse a bill of exchange and give it to someone else, thus passing such payment to some other party. It is to be noted that when the bill of exchange is issued by the financial institutions, it's usually referred to as a bank draft. And if it is issued by an individual, it is usually referred to as a trade draft. A bill of exchange primarily acts as a promissory note in the international trade; the exporter or seller, in the transaction addresses a bill of exchange to an importer or buyer. A third party, usually the banks, is a party to several bills of exchange acting as a guarantee for these payments. It helps in reducing any risk which is part and parcel of any transaction.

Cheques

A cheque refers to an instrument in writing which contains an unconditional order, addressed to a banker and is signed by a person who has deposited his money with the banker. This order, requires the banker to pay a certain sum of money on demand only to to the bearer of cheque (person holding the cheque) or to any other person who is specifically to be paid as per instructions given. Cheques could be a good way of paying different kinds of bills. Although the usage of cheques is declining over the years due to online banking, individuals still use cheques for paying for loans, college fees, car EMIs, etc. Cheques are also a good way of keeping track of all the transactions on paper. On the other side, cheques are comparatively a slow method of payment and might take some time to be processed.

The Negotiable Instruments (Amendment) Bill, 2017

The Negotiable Instruments (Amendment) Bill, 2017 has been introduced in the Lok Sabha earlier this year on Jan 2nd, 2018. The bill seeks for amending the existing Act. The bill defines the promissory note, bill of exchange, and cheques. The bill also specifies the penalties for dishonor of cheques and various other violations related to negotiable instruments. As per a recent circular, up to INR 10,000 along with interest at the rate of 6%-9% would have to be paid by an individual for cheques being dishonored. The Bill also inserts a provision for allowing the court to order for an interim compensation to people whose cheques have bounced due to a dishonouring party (individuals/entities at fault). Such interim compensation won't exceed 20 percent of the total cheque value.

MCQs

1. **A negotiable instrument means a _______________ payable either to order or to bearer.**

    A. Promissory note
    B. Bill of exchange
    C. Cheque
    D. **All of the above**

2. **Negotiable means transferable by delivery and instrument means a written document by which a right is created in favour of some person. Thus, negotiable instrument may mean a written document transferable by delivery.**

    A. **The above statement is correct**
    B. The above statement is incorrect

3. **The essential characteristics of a negotiable instrument include:**

    A. Payable to order or bearer

B. Easy transferability
C. Transferee can sue in his own name
D. Title of holder in due course
E. **All of the above**

4. **The presumptions in respect of negotiable instruments include:**

    1.
        I. Every negotiable instrument was made, drawn, accepted, endorsed or transferred for consideration.
        II. Every negotiable instrument bearing a date was made or drawn on such date.
        III. Every bill of exchange was accepted within a reasonable time after its date and before its maturity.
        IV. Every transfer of a negotiable instrument was made before its maturity.
        V. The endorsements appearing upon a negotiable instrument were made in the order in which they appear.
        VI. A lost negotiable instrument was duly stamped.

    A. **All of the above**
    B. (I) (III) and (V) only
    C. (II) (III) and (IV) only
    D. None

5. **A holder of negotiable instrument is a holder in due course where it is proved that the holder has obtained the instrument from its lawful owner, or from any person in lawful custody thereof, by means of an offence, fraud or for unlawful consideration and in such a case the holder has to prove that he is a holder in due course.**

    A. The above statement is correct
    B. **The above statement is incorrect**

6. **When a bill of exchange has been noted or protested for non-acceptance or for better security and any person accepts it supra protest or honour of the drawer or of any one of the endorsers, such person is called:**

    A. **An acceptor for honor**
    B. Payment for honor
    C. Both A&B
    D. None