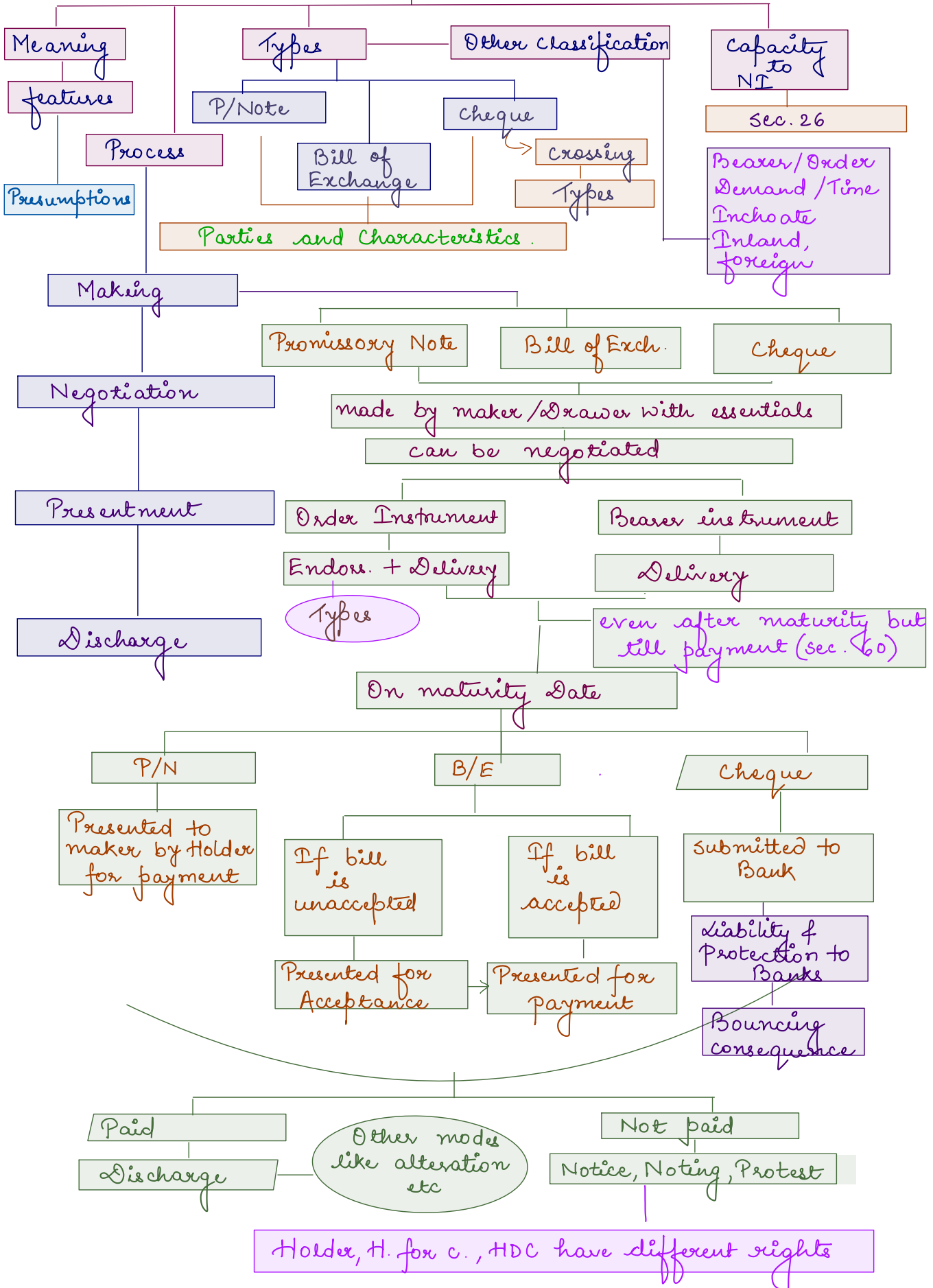
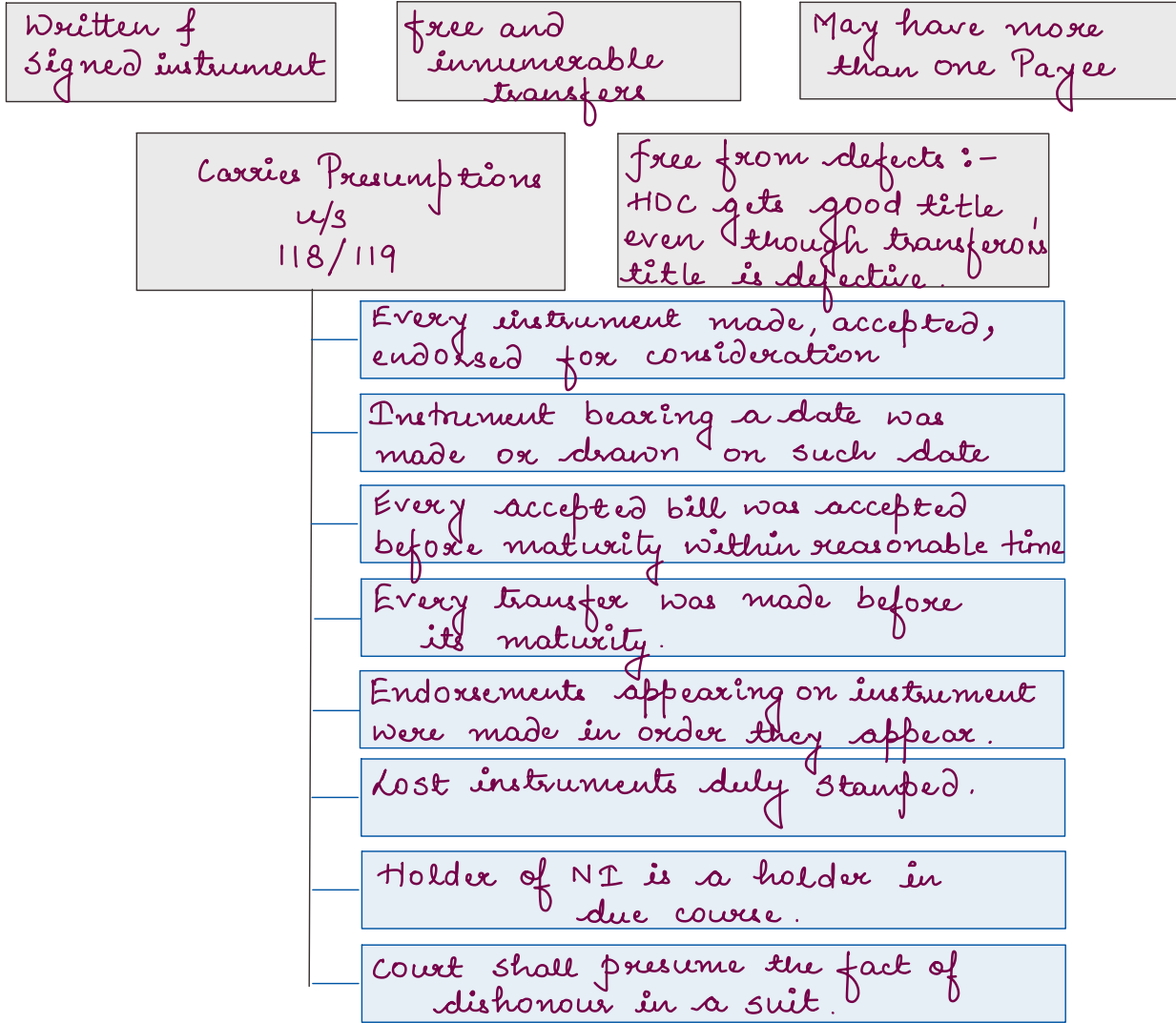


Negotiable Instruments Act



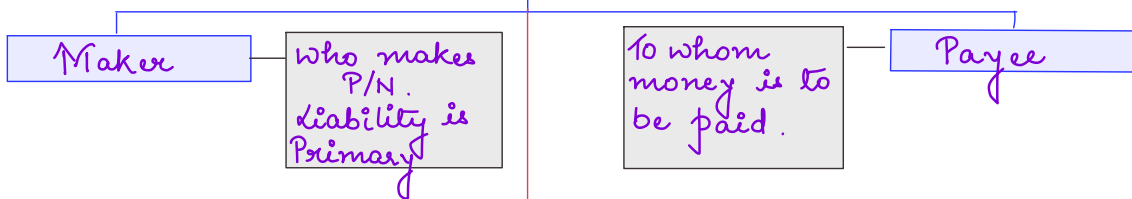
Features of Negotiable Instruments



Promissory Note [Sec. 4]

Instrument in writing containing unconditional undertaking signed by maker to pay certain sum of money only to or to order or to bearer of instrument.

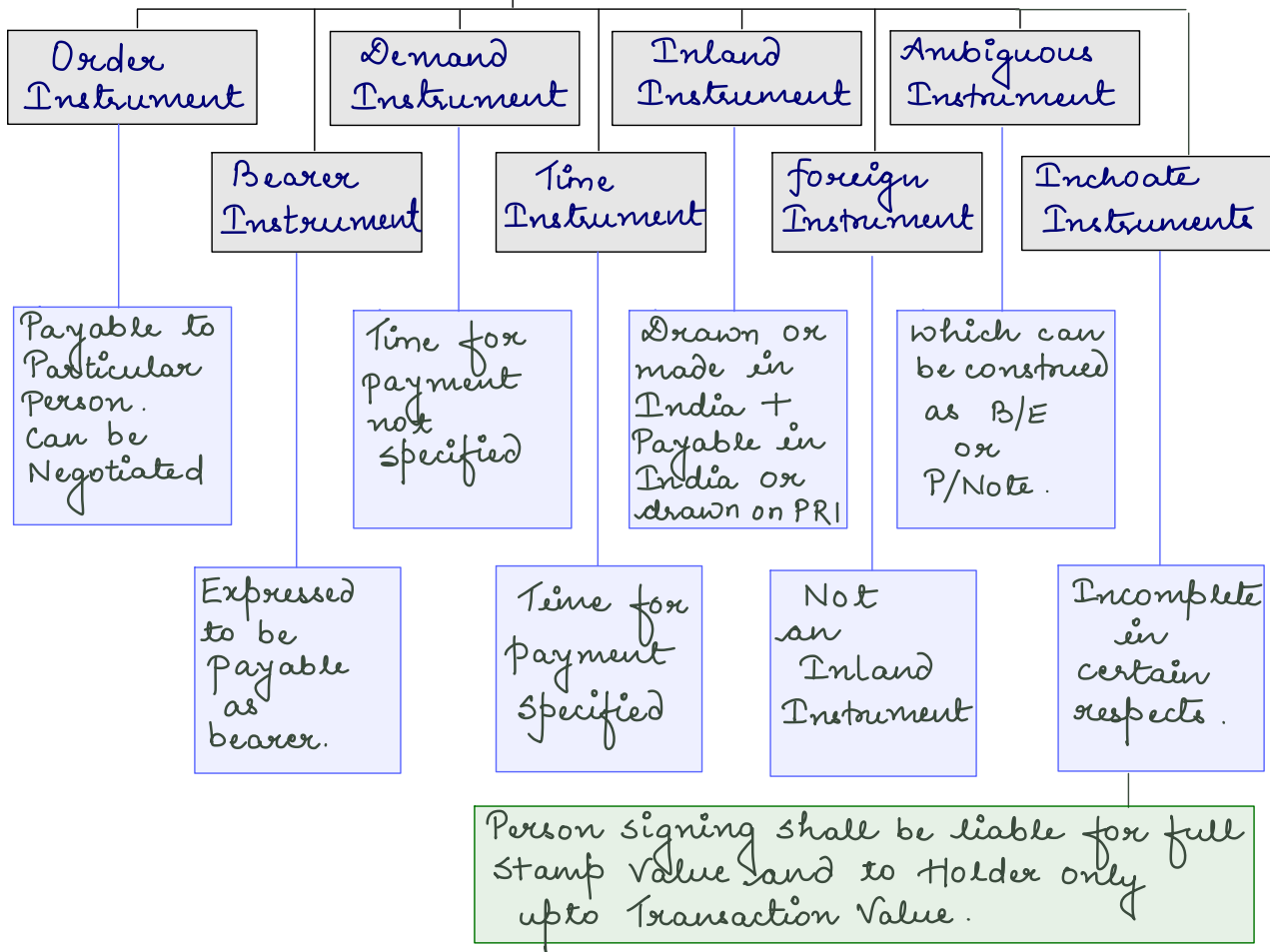
Parties to Promissory Note



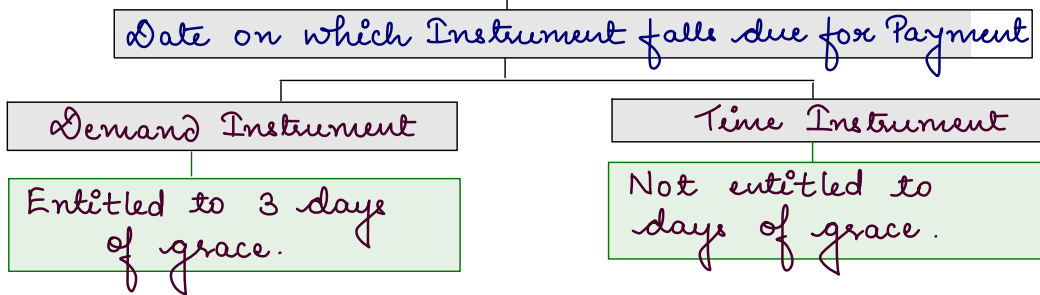
Essentials of Promissory Note.

In writing	Express Promise to pay	Definite & unconditional	Signed by maker
certain sum	Money only	certain Payee	Stamped

Types of Instruments



Maturity of Negotiable Instruments

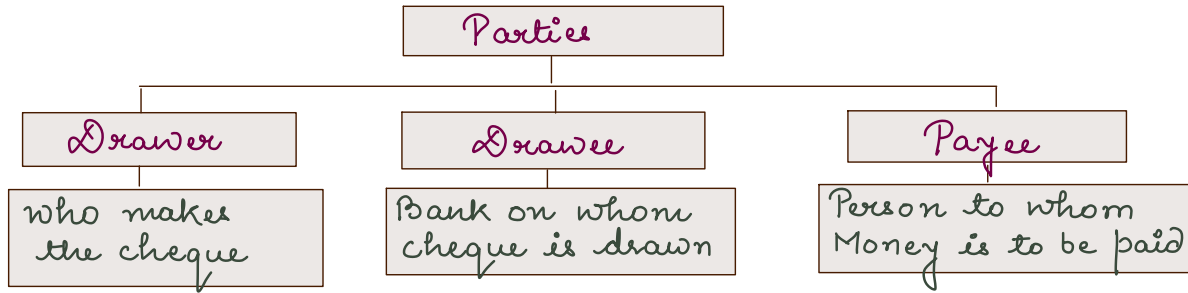


Rules of Maturity :-

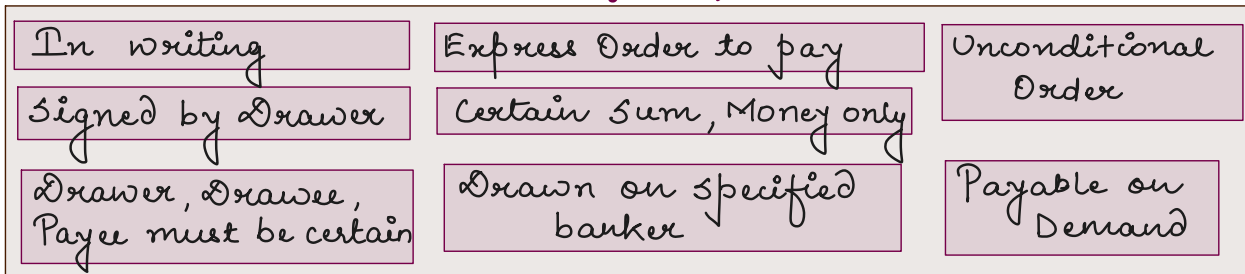
- If No corresponding day in a Month, period to terminate on last day of such Month.
- If matures on Public Holiday, preceding business day.
- If matures on Emergency Holiday, deemed to be due on succeeding business day.

Cheque [Section 6]

Bill of Exchange drawn on specified banker payable on Demand.
Includes Electronic and Truncated Cheque.



Essentials of Cheque



A cheque may be Order or Bearer cheque and

It may be **CROSSED**

Crossing means giving direction to paying banker that Payment can be collected only through Banker.

does not affect transferability

Types of Crossing.

Can be crossed by Drawer Holder Banker.

General Crossing

Special Crossing

A/c Payee Crossing

Not Negotiable crossing

Name of Bank Only specified bank can collect payment

Credit Amount only to account of Payee. Restricts Negotiability.

Two parallel transverse lines.
Banker on whom it is drawn shall not pay it otherwise than to Banker

No better title can be passed than title of person from he took had.

Protection to Paying Banker

Banker making Payment of cheque.

No liability of Paying Banker if :-

In case of Order cheque

If payment made in due course to Indorsee

In case of bearer cheque

If payment made in due course to Bearer

In case of Generally crossed cheque

If payment made in due course to a Banker

In case of Specially crossed cheque.

If payment made in due course to specified banker

If Banker pays a cheque crossed generally otherwise than to Banker shall be liable to true owner of cheque

Payment in due course (Sec. 10)

- Apparent tenor
- Good faith
- Without Negligence
- In possession of instrument
- In money only.

Protection to Collecting Banker

No liability of banker receiving payment if-

Banker received payment of crossed cheque collected on behalf of customer in good faith without Negligence.

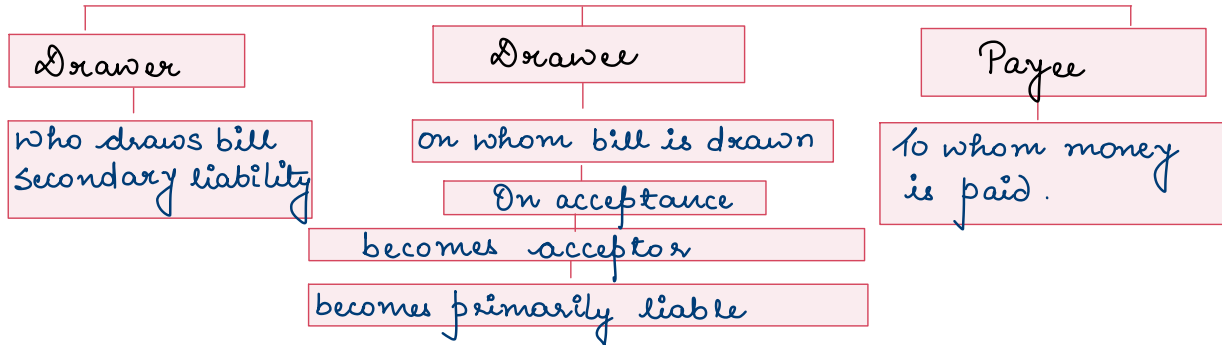
Assignment :- (Different from Negotiation)

A transfer by assignment takes place when Holder of an instrument transfer to another to confer right to receive payment of instrument. (Transferee's Title = Transferor's title)

Bill of Exchange [Sec. 5]

Instrument in writing containing unconditional order signed by maker directing a person to pay certain money to or to order or to bearer of instrument.

Parties to Bill of Exchange



Essentials of Bill of Exchange

In writing	Express order to pay	Definite & unconditional	signed by drawer
certain sum	Money only	Certain Payee, Drawer, drawee	Stamped

Acceptance of Bill

When Drawee signs the Bill & Delivers it to Holder

He becomes acceptor & liable

Acceptance must be without Qualification

If Qualified then-

If Holder agrees

All previous parties not consenting to it are discharged

If Holder doesn't agree

Bill dishonoured due to Non-Acceptance.

Bills in sets :- Bill drawn in parts and numbered.

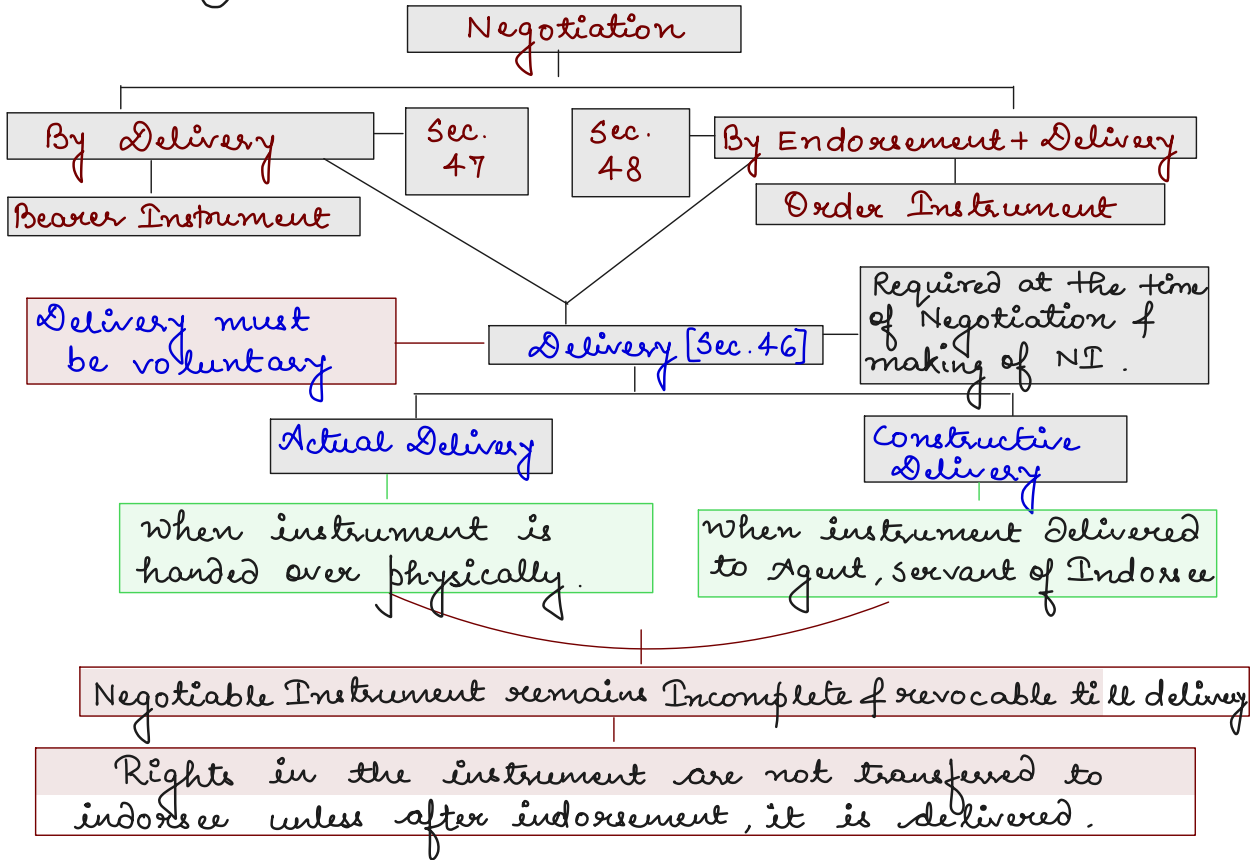
Capacity to incur liability [Section 26]

Minor not liable

Other Parties will be liable

Minor can sue Adults but minor can't be sued.

Negotiation :-



Indorsement

In writing

signed

by holder

Types of Indorsement

General

without writing Name (Blank)
[Order to Bearer]

Special

Name of specified Person

Restrictive

No right of further Negotiation

Partial

Not full Amount (Not Allowed)

Conditional

Sans Recourse

No liability of subsequent party

Sans frais

No expenses on bill

facultative

Waive certain right

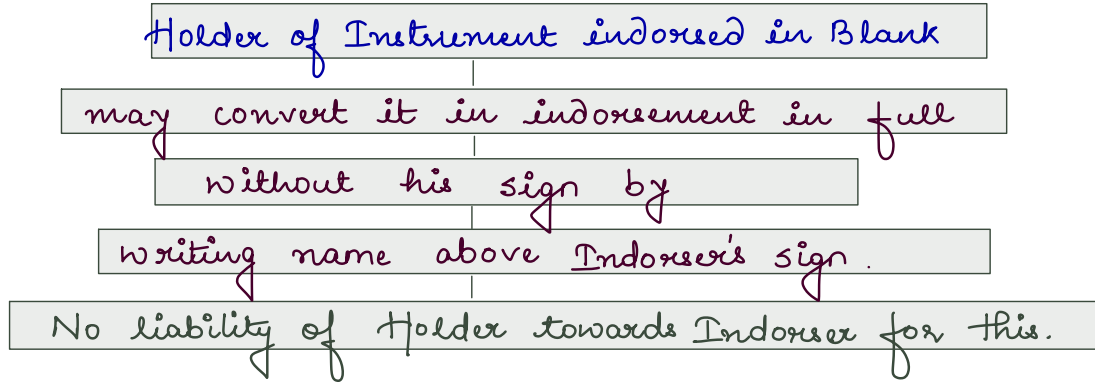
Conditional

Depending on event

Negotiation Back :-

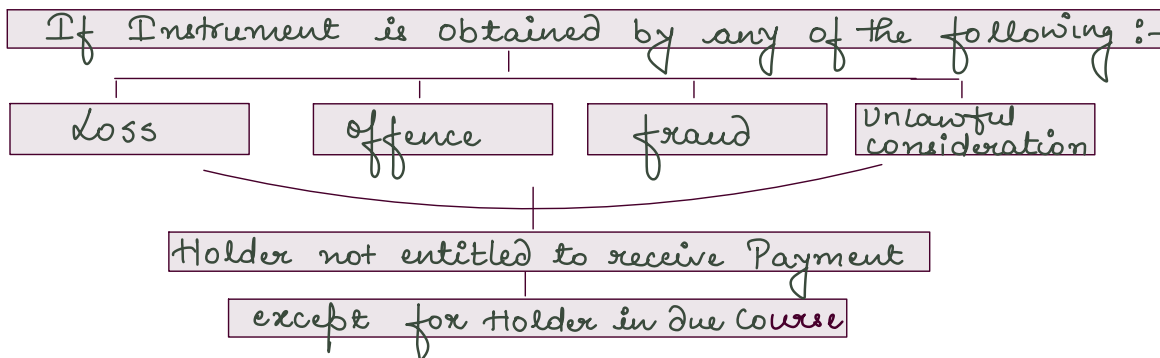
When Indorser after negotiating becomes holder again
→ None of the intermediate Holder/endorser is liable to Holder (except for Sans recourse Indorsement)

Conversion of Blank Indorsement into full

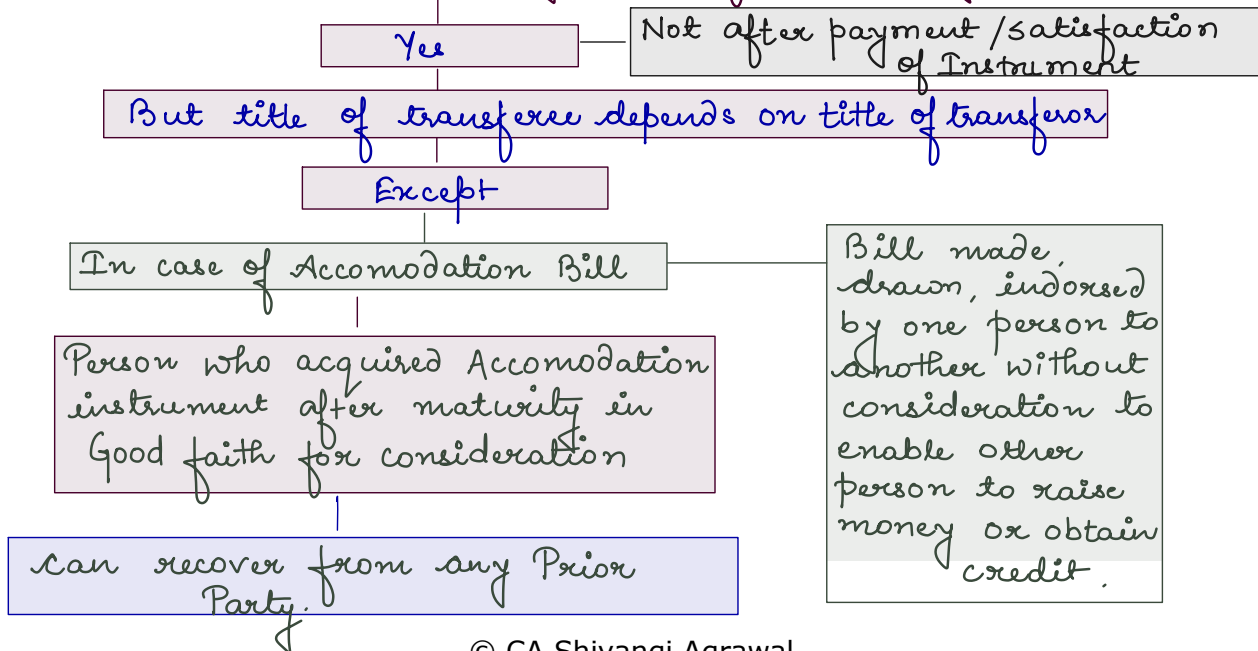


Instrument obtained by Unlawful means

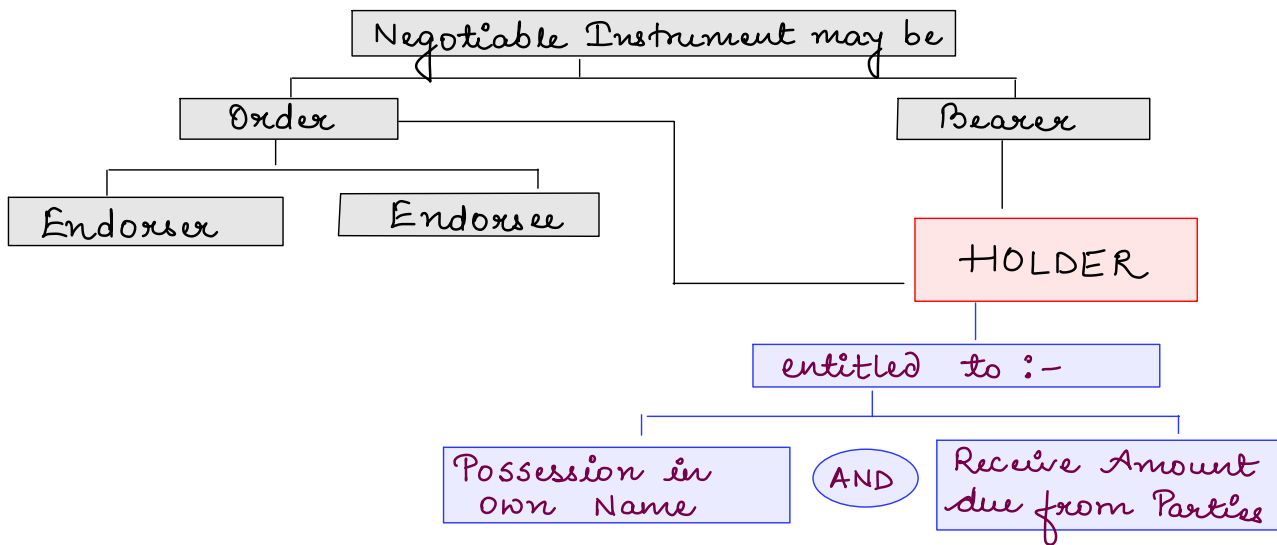
Section 58



Can Instrument be negotiated after maturity?



Holder



A person in possession without having right to possess is not a HOLDER.

Negotiable Instrument without consideration

Section 43

A negotiable instrument without consideration

creates no obligation b/w Parties

Except to HDC who acquires in Good faith

Exceptions :-
Accommodation Bill
Not exceeding Performance Value

Partial failure (Sec. 44)

Claim of holder in immediate relation shall be proportionately reduced.

failure Not consisting of Money (Sec. 45)

Claim of holder in immediate relation shall be proportionately reduced.

Holder's right to Duplicate Bill [Sec. 45A]

B/E lost before it is due

Holder

may apply to Drawer

Drawer gives

to get Duplicate Bill

Drawer refuses

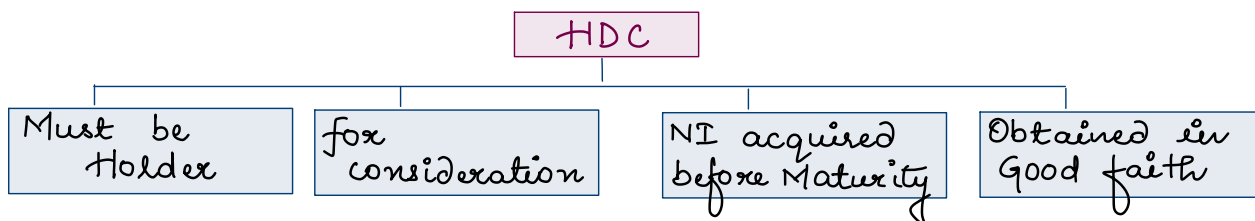
after security/Indemnity

can be compelled to do so.

Holder for Value

B/w Holder & HDC. Gets instrument for consideration after maturity

Holder in Due Course (Sec. 9)



He must be possessor in case of Bearer Instrument.
He must be Payee or Endorsee in case of order Instrument.

HDC is entitled to following Privileges :-

can claim full stamp value of the Instrument (Sec. 20)

can make the party liable even if the Bill is fictitious (Sec. 42)

Even if delivery depends upon happening of some event, HDC gets good title.

HDC acquires good title even if Instrument was obtained by Unlawful means / consideration (Sec. 58)

No person can deny original validity of instrument to HDC.

No person shall be permitted to deny payee's capacity.

All subsequent parties acquiring title from HDC gets good title. (Sec. 53)

HDC gets a better title than that of its transferee. (Sec. 36) → can sue all Prior Parties

Payment in Due Course [Sec. 10]

As per apparent Tenor

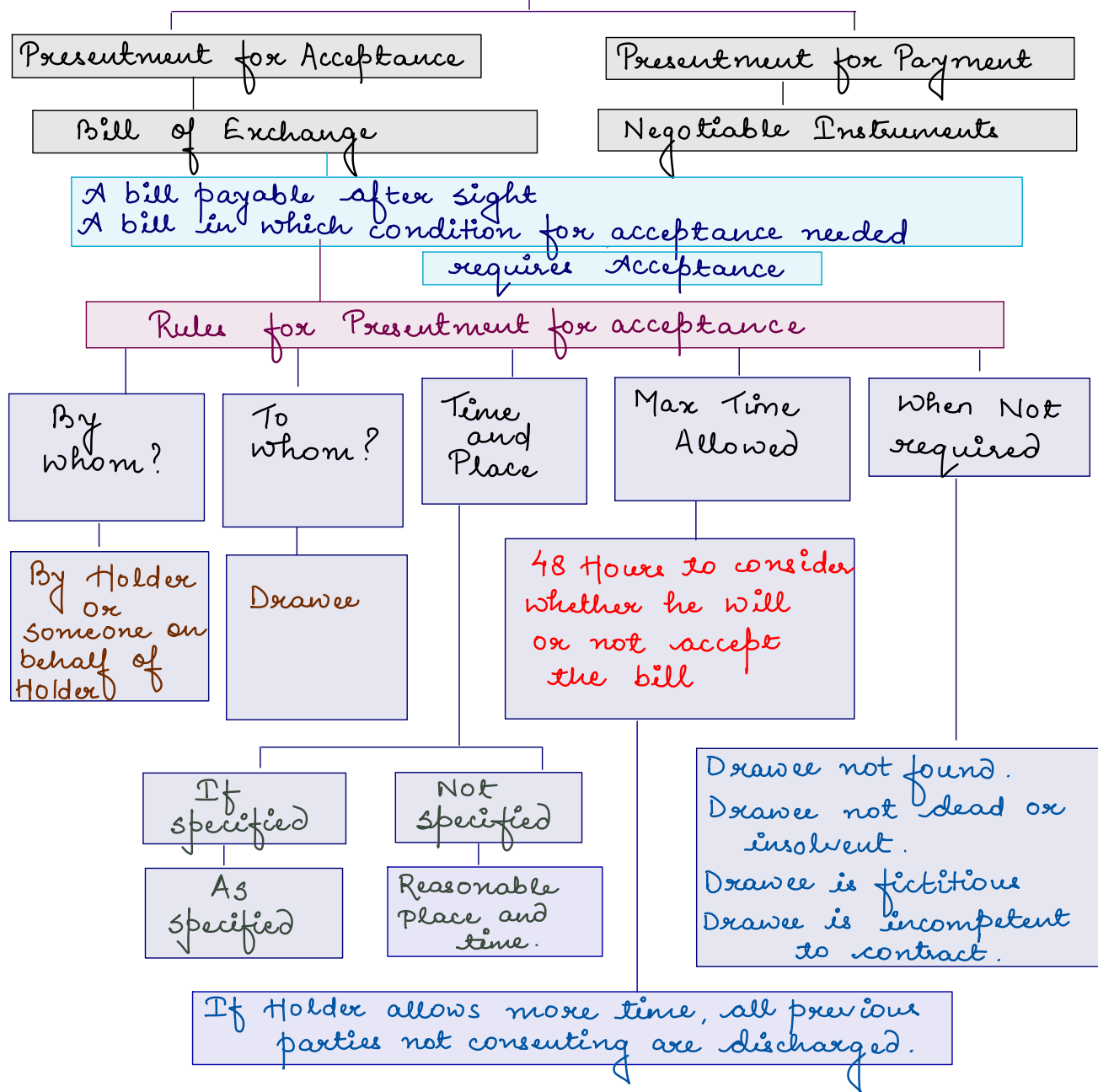
In good faith

Without Negligence

in possession of Instrument

in Money only.

Presentment of Negotiable Instruments



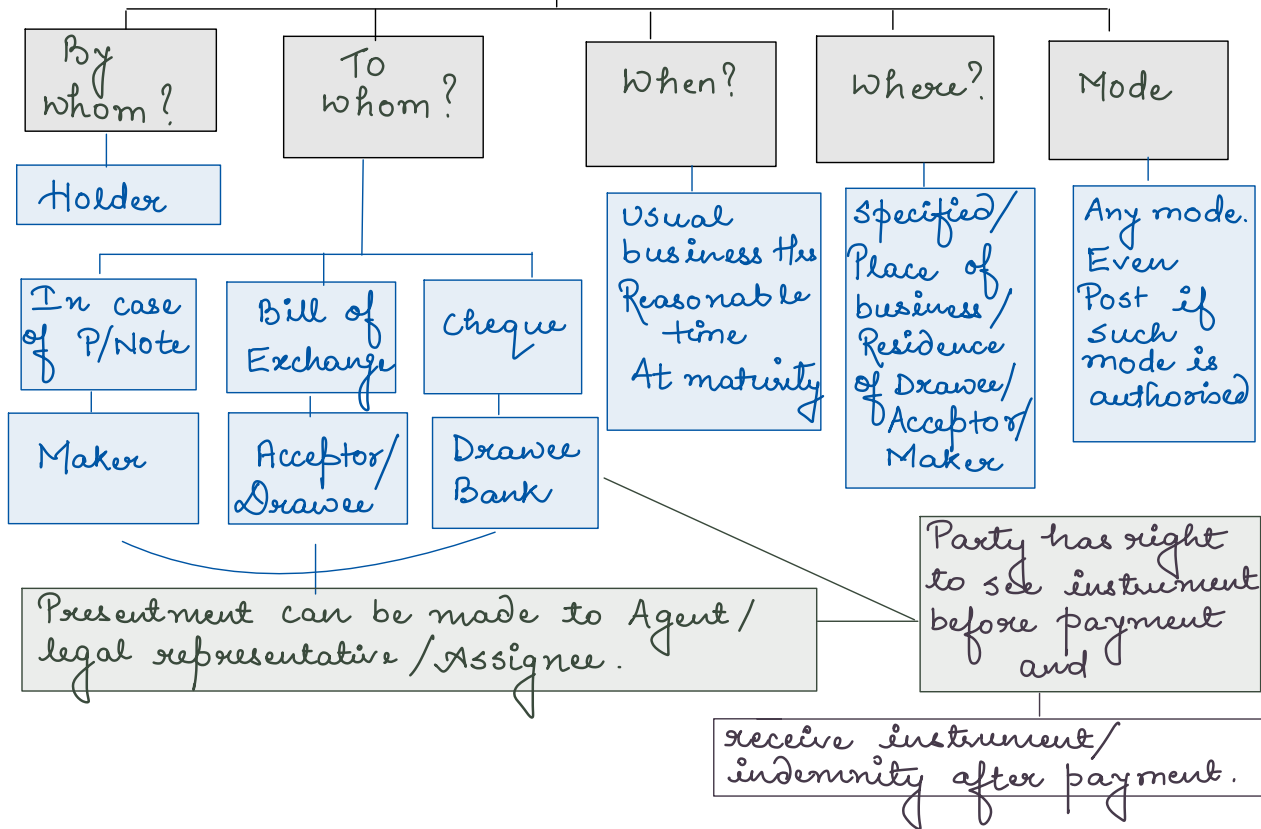
Default in Presentment :-

Dishonour due Non-acceptance. [Sec. 91]
No liability of drawee under Bill.
No privity of contract
No party liable.

Promissory Note after sight must be presented to maker for sight

Presentment for Payment

Negotiable Instrument is exhibited with request for Payment



When Presentment not necessary?

Maker/Acceptor prevents presentment — Cheque must be presented to charge Drawer
 Payable at a place where no one found.
 If with knowledge of Non-presentment, party makes part-payment.
 Waives right.

Interest if not agreed for belated payment shall be @ 18% p.a.

Acceptance in fictitious Name (Sec. 42)

Bill drawn in fictitious name of Drawer but signed on Bill & Indorsee in same writing
 ↓
 Bill Accepted
 ↓
 Negotiated to HDC
 ↓
 Acceptor liable towards HDC.
 (can't deny)

Acceptance for Honour :-

Bill Noted for Non-Acceptance
 ↓
 For better security
 ↓
 Person not being party to Bill
 ↓
 with consent of Holder
 ↓
 Accept by writing
 ↓
 for honour of any party thereto.

Dishonour of Instruments

By Non-Acceptance if

Bill

Drawee doesn't accept within 48 Hrs
Drawee refuses to accept
Qualified acceptance & Holder doesn't give consent
Drawee incompetent/fictitious/Not found
One of the drawees doesn't accept

Holder gets immediate right to sue all prior parties

P/Note or cheque can't be dishonoured due to Non-acceptance as it does not require acceptance

Bill
P/Note
Cheque

By Non-payment if

Instrument remains unpaid after maturity

If default in payment is made by -

Maker in case of P/Note

Acceptor/Drawee in case of Bill of Exchange

Drawee in case of cheque

To make all prior Parties, Notice of Dishonour to be given

by HOLDER

to all prior parties (Except Sans recourse Indorser)

Notice must disclose fact of dishonour

How?

Oral/written
Same rules as of Presentment

can be given by any Party other than Holder

Party who doesn't receive such notice is discharged

Notice not necessary if :- (Sec. 98)

dispensed by Party
Party not found

Countermanded Payment
couldn't give notice without own fault.

Noting :- Recording of fact of Dishonour by Notary Public.

Prototyping :- Certificate attesting dishonour based upon Noting.

Dishonour of Cheque (Sec. 138)

Banker to refuse payment on following grounds

Cheque issued by Drawer

must be presented within reasonable time

Presented

Returned due to insufficiency of funds

Bouncing of cheques.

Payee to give Notice to Drawer within 30 days

On receipt, payment to be made within 15 days

Done

Not done

Payee may sue within 1 month

Offence :- Twice the Amount of cheque / 2 years of Imprisonment or both.

Not Presented

Sec. 84

Effect of Non-Presentation of Cheque

Drawer has sufficient balance

Cheque not presented by Drawer

Bank fails

Drawer is discharged

upto the amount of damages

Stop payment
Garnishee order
Death/insolvency/insanity of customer
Defect in Holder's title.
Loss of cheque
Altered, mutilated cheque
Different signs
Irregular indorsement
Stale/Post dated/un-dated
Doubtful validity
Application for closure of A/c.

Offences by Companies

Offence committed by company & proved that offence committed with consent of or attributable to negligence on Officer in charge, they shall be held liable.

Cognizance of Offences

Complaint made to court in writing

by Payee or Holder in due course

within 1 month of cause of action

It shall be tried only by a court —

If cheque delivered for collection through Account

Where branch of Payee (in which he maintains A/c) is situated

If cheque presented otherwise through Account

Branch of Drawee Bank (where Drawer maintains A/c) is situated.

Every offence punishable is compoundable.

Material Alteration

which alters character (legal effect) or rights & liabilities of instrument (change of Date, time, place, Amount)

Allowed :-
Crossing conversion of Blank indorsement to full Bearer into order.

Effect (sec. 87)

Instrument shall be void.

Parties not consenting are discharged.

Protection shall be offered to person who makes payment on altered instrument which is not apparent.

Discharge

of Negotiable Instruments

Discharge of all Parties

of Party

Discharge of 1/more party

	of Instrument	of Party
Payment	Party primarily liable makes payment ↓ All parties discharged	Any party makes payment ↓ Subsequent parties discharged

Cancellation	Holder cancels name of Party primarily liable ↓ All parties discharged	Holder cancels name of one of the party ↓ subsequent parties discharged
Release	Holder renounces right against Party primarily liable ↓ All parties discharged	Holder renounces right against any Party ↓ subsequent parties discharged
Negotiation Back	Party primarily liable becomes Holder of Negotiable Instrument ↓ All Parties discharged	Party already liable becomes Holder of instrument ↓ subsequent parties discharged.
Lapse of Time	Instrument discharged on becoming Time Barred.	
Allowing drawee more than 48 Hours		Parties not consenting discharged
Qualified Acceptance		Parties not consenting discharged
Material Alteration		Parties not consenting discharged
No notice of dishonour		Party not receiving Notice of dishonour discharged
Insolvency		Party insolvent discharged.