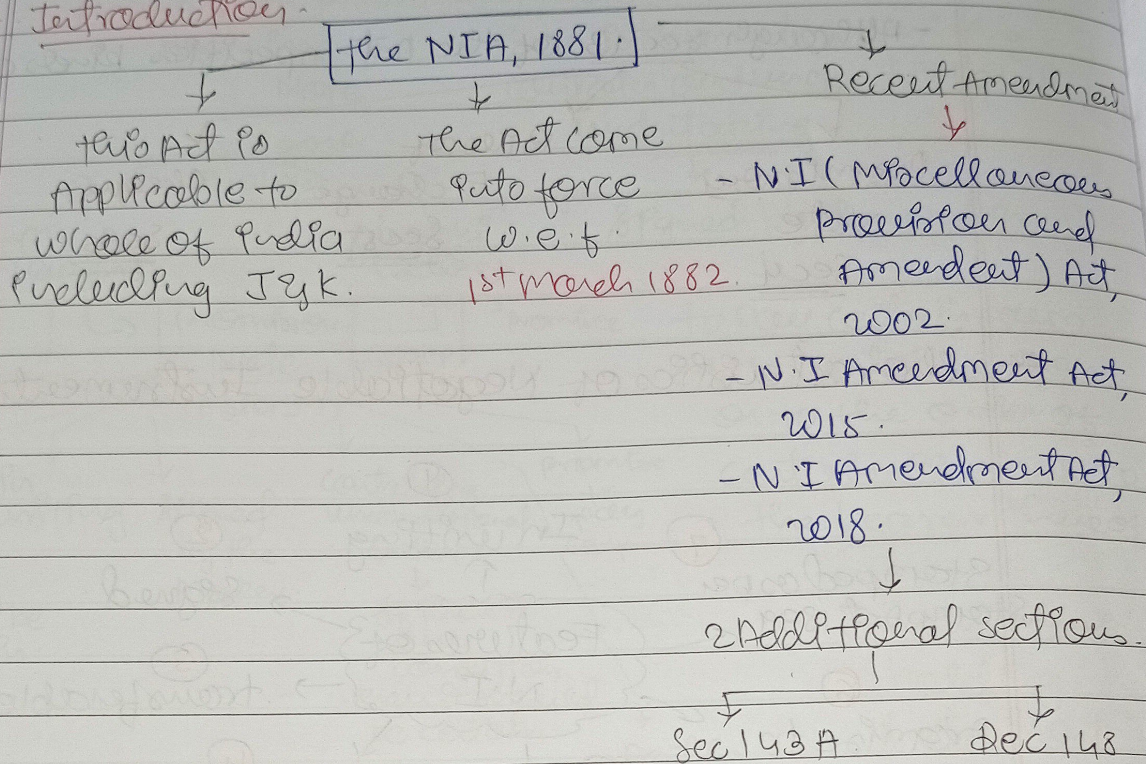


The Negotiable Instrument Act, 1881

* Introduction



* Negotiable Instrument :-

Negotiable - Transferable
Instrument - Piece of Paper

} A written piece of paper which is transferable by one person to another person which creates right of a person to receive money by corresponding liability of person to pay.

It's called as N.I.

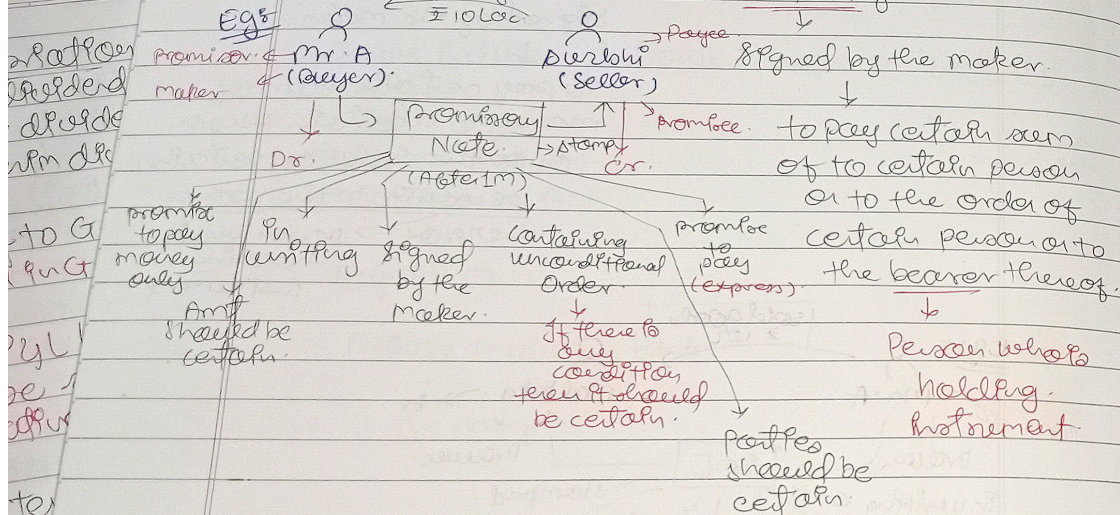
Teacher's Signature:

ordinary experience of mankind \rightarrow valid

* Promissory Note :-

- Meaning of Promissory Note :-

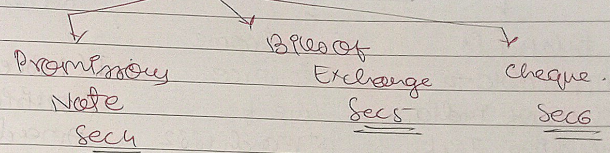
Promissory Note \rightarrow is an instrument in writing certain and unconditional undertaking.



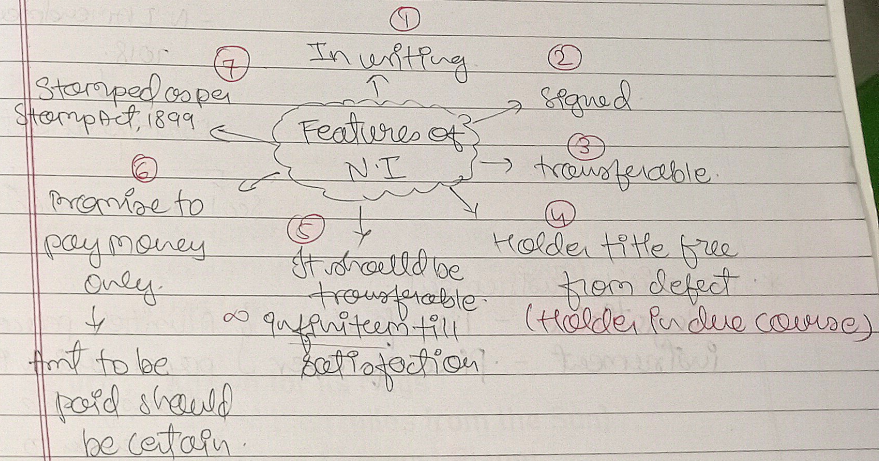
Note :- The liability of maker is primary & absolute

- N.I. Act, 1881 does not define N.I.

- Although sec 13 of the Act specifies kinds of N.I.



* Characteristics of Negotiable Instruments :-



* Cheque :-
 - cheque = BOE + Payable on Dd + Drawee is always bank.

- No stamp is required in case of cheque.

- Cheque includes electronic cheque or truncated cheque.

↓
 first it is physical then electronic

- features of cheque :-

All features of BOE

(+)

Payable of Dd.

(+)

Drawee is always bank.

(+)

No stamp

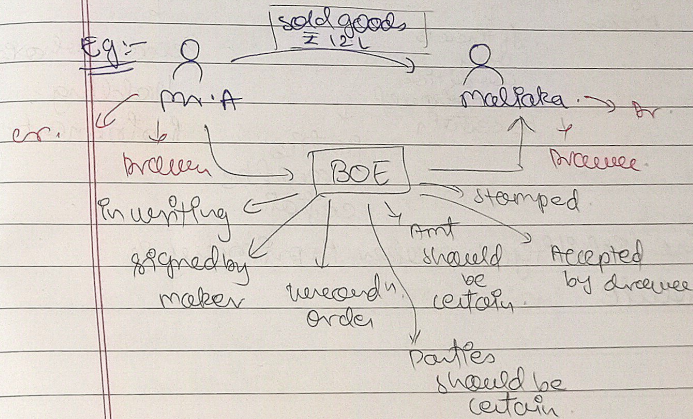
* Bill of Exchange :-

- meaning of BOE :-

BOE → is an instrument in writing containing ^{an unconditional} order

↓
 signed by the maker

↓
 to pay certain sum of money to a certain person or to the order of certain person or to the bearer thereof → person who is holding instrument



Note :- Liability of maker is secondary & conditional primary liability is of drawee.

For eg :- In above case Mr. A endorse bill to Arbaaz.

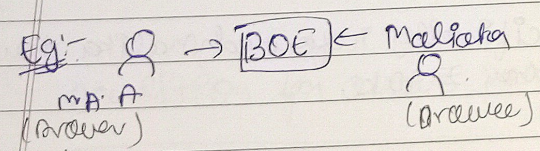
↓
 Arbaaz will claim from drawee i.e. Malika if Malika defaults then Arbaaz will claim from Mr. A.

Eg:-	Issued in	Payable in	Payable to	I/F
BOE	Mumbai	Chennai	R	I
PN	Mangalore	Sydney	R	I
cheque	Kata	Viran	NR	I
BOE	Mumbai	Paris	NR	F
cheque	Italy	Mumbai	R	F

③ Ambiguous Instrument :- Sec 17

(confusing) Ambiguous Instrument → An instrument which can be BOE or PN & it can also be identified as promissory note is called as Ambiguous instrument.

↓
Holder of such instrument can treat it as BOE or PN & once the option is exercised by the holder it cannot be subsequently changed.



Before BOE was accepted by Mallika Mr. A endorsed BOE to → Arbaaz.

→ Arbaaz presented to Mallika for acceptance. However, Mallika refused to accept. → Arbaaz claimed from Mr. A.

Mr. A himself accepted the instrument.

Therefore Arbaaz has option to treat as BOE/PN once he exercise his option, then it cannot be changed subsequently.

* Type of Negotiable Instruments

- | | |
|---|---|
| ① Bearer Instrument | Order Instrument |
| ↓ | ↓ |
| - Name of payee not specified | - Name of payee is specified |
| - Last endorsement is endorsement in blank | - Last endorsement is endorsement in full |
| - Bearer instrument can be negotiated by mere delivery. | - Order instrument can be negotiated by endorsement + delivery. |

Note :- PN or BOE can never be bearer because if it is allowed to be bearer then it will act as substitute of currency and only RBI or CG has monopoly to issue currency.

- | | |
|--|--|
| ② Inland Instrument | Foreign Instrument |
| ↓ | ↓ |
| Inland Instrument = made/drawn in India. | - Instrument which is not an inland instrument is called foreign instrument. |
| + Payable in India. | - The NIA, 1881 will not apply. |
| OR | |
| Payable to resident of India. | |

Inland Instrument = (a+b) or (a+c)
- If an instrument inland instrument then negotiable instrument Act, 1881 will apply.

CLASSWORK

Case 1:- Malika fills ₹ 10K ✓ valid

Case 2:- Malika fills ₹ 80K ✗ Invalid

Case 3:- Suppose Malika endorsed the promissory note to Arbaaz without specifying amt.

- Arbaaz fills ₹ 70K ₹ → valid

- Arbaaz fills ₹ 90K ₹ → valid

- Arbaaz fills ₹ 120K → Invalid

* Dishonour of cheque → Sec 138.
(criminal punishment)

(E) - If a cheque is dishonoured due to insufficiency of fund lying in the credit of bank A/c of drawer (E) the amt specified in the cheque exceeds the amt arranged to be paid from that bank A/c.

↓
The punishment upon drawer :-
Imprisonment :- upto 2 years

OR
fine = 2 (Amount of cheques)

OR

Both

(A) Condition for above punishment

1) Cheque must have been presented to bank within 3 months.

(+) ↓

2) Cheque was issued for discharge of legally enforceable debt.

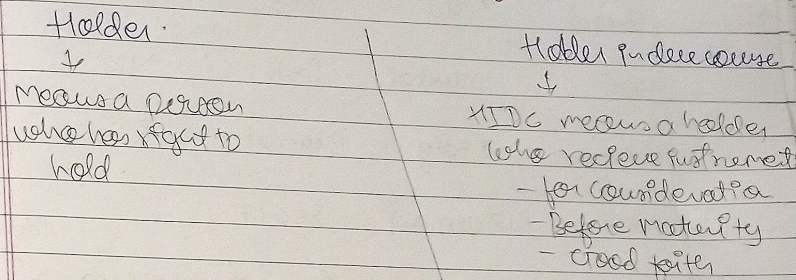
(B) Procedure for above punishment

n-day = collecting bank informs payee cheque is dishonoured due to insufficiency of funds.

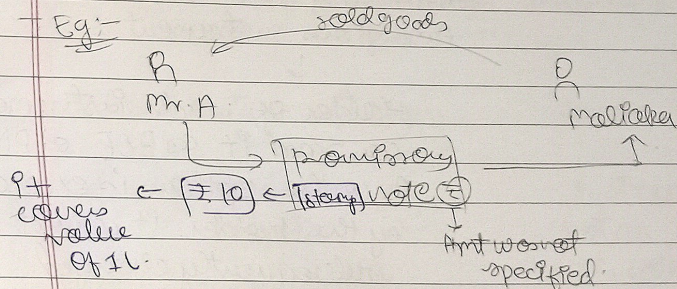
(4) Incomplete Instrument Sec 20
Incomplete

- An instrument is incomplete in certain respects is called as incomplete instrument

For understanding



Every HDC is a holder Every holder is not HDC.

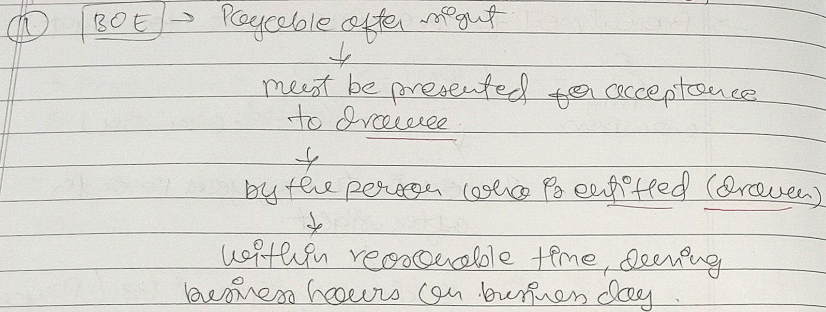


Mr. A specifically informed Malika to fill more than ₹ 70K.

sec 63

Note - Where drawer presents BOE for acceptance to drawee, then drawee can ask for 48 hours for acceptance.

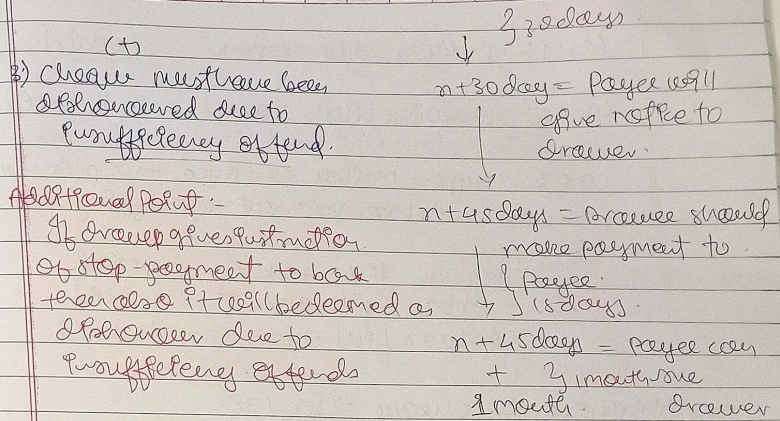
→ Presentment of Acceptance only for BOE: Sec 61



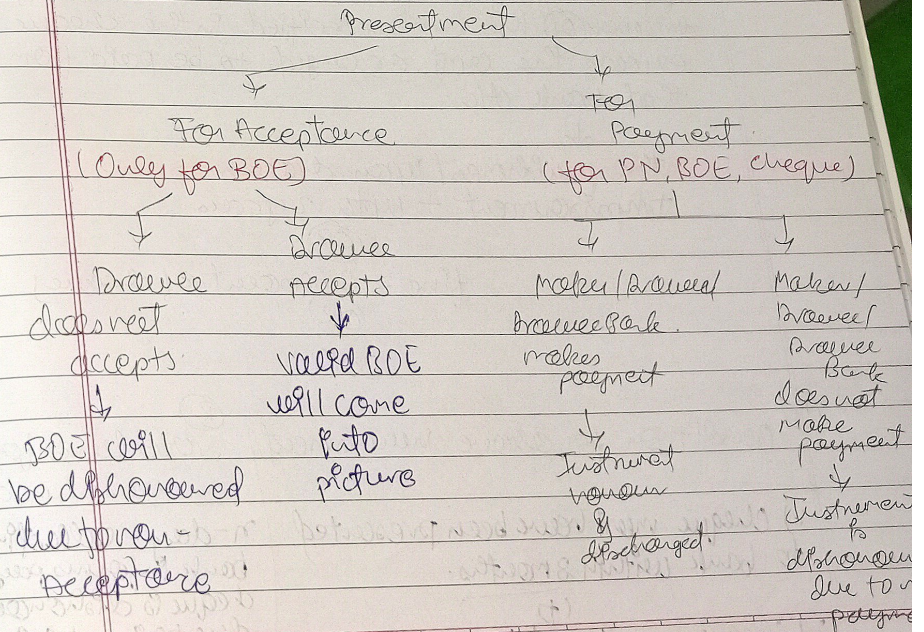
Note:- If any time/place/day agreed between drawer & drawee for acceptance presentment shall be made at such time, place, day.

- ② If drawee cannot be found then BOE is dishonoured due to non-acceptance.
- ③ If any place was specified for presentment for acceptance but drawee cannot be found at such place then BOE is dishonoured due to non-acceptance.
- ④ If drawer fails to make presentment of acceptance then he cannot hold drawee liable.

Teacher's Signature:



* Presentment :-



Teacher's Signature:

Teacher's Signature:

→ Presentment for Payment :- Sec 64.

- PN } must be presented for } - make
 BOE } payment to } - receive
 cheque } } - receive back.

→ Presentment for payment can be made by or on behalf of holder.

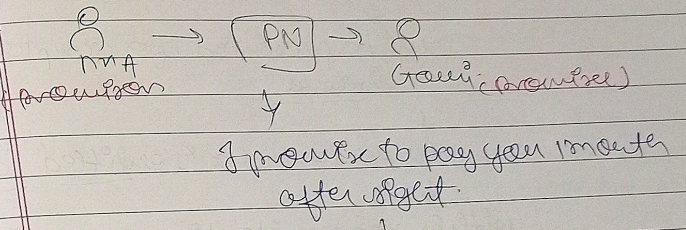
→ If it is agreed between the parties or customs allows.

↓
 then in such case presentment for payment can be made through post office means of registered letter.

→ If presentment is ^{not} made for payment then the party is liable.

⑤ If it was agreed between the parties or when the customs allows presentment can be made through post office by means of registered letter.

→ Presentment for promissory note for sight :-



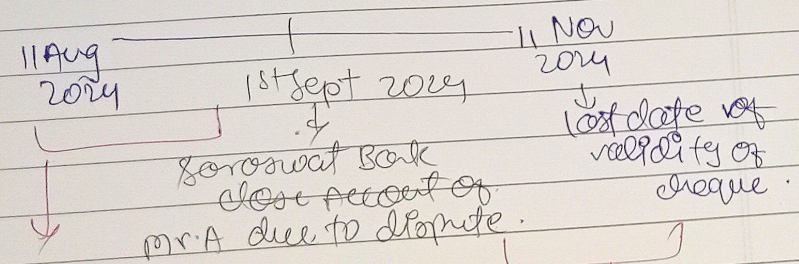
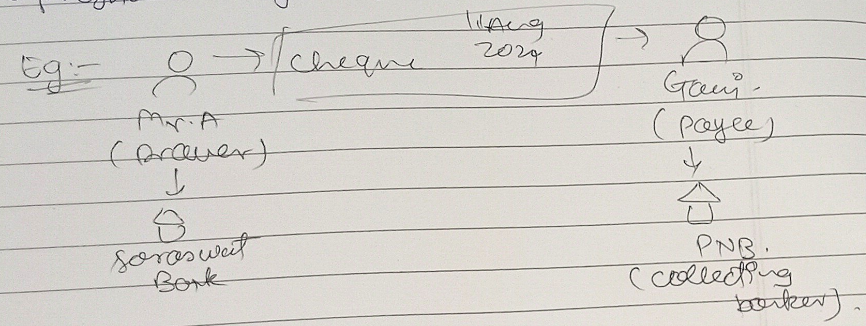
↓
 then in such case Gauri i.e. (Payee/Promisee) shall make presentment for sight to M/A within reasonable during business hours, on business day.

Note :- If any time, place, day, is agreed between maker & payee then presentment for sight shall be made at such time, place, day.

Note :- If payee i.e. promisee (Gauri) does not make presentment for sight to maker (M/A) then maker is not liable.

→ Presentment of cheque to change drawer -
Sec 72.

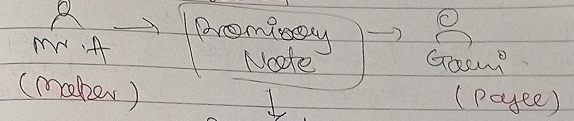
If drawee wants to change drawer to make drawer liable then payee shall first present cheque to drawee bank & cheque should be presented to drawee bank before the relation between drawee bank & drawer is altered which is prejudice (against) to drawer.



If cheque is presented between this period then Green will get payment.

If cheque is presented between this period Saraswati bank will not make payment to Green.

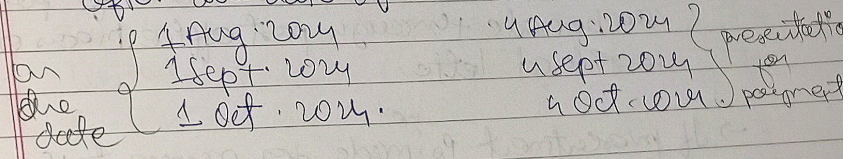
→ Presentment for promissory note payable by installments - Sec 67.



- Payment of ₹ 3 L in 3
- Installment of ₹ 1 L each.
- 1 Aug 2024 = 1 L
- 1 Sept 2024 = 1 L
- 1 Oct 2024 = 1 L

Default in installment
Default entire installment

∴ Green will present PN for payment on 3rd day after due date of each installment.



- If maker defaults in payment of any installment then it will have same effect as if entire installment is dishonoured.