Negotiable Instruments

- The law related to negotiable instruments is enacted in India as Negotiable Instruments Act, 1881 and came into force from March 1, 1882 in the country.
- This law is commercial in nature and aims to regulate the payment-related settlements of trade and commerce. The Act is governed by the Reserve Bank of India Act, 1934.

NEGOTIABLE INSTRUMENTS

- Negotiable instruments are those documents which are used for making payments
- negotiable instrument is a transferable document, where negotiable means transferable and instrument means document.
- According to section 13 of the Negotiable Instruments Act, 1881, a negotiable instrument can be defined as a "promissory note, bill of exchange, or cheque, payable either to order or to bearer".

Characteristics of Negotiable Instruments

- Easy Transferable- A negotiable instrument is can be transferred freely.
- Absolute Title- Negotiability of these instruments accords absolute and good title on the transferee.
- Written form- A negotiable instrument must be in written form.
- Unconditional Order- In the negotiable instruments, an unconditional order or promise for payment must be mentioned.
- Payment- The instrument should have considered payment of a certain sum of money only and nothing else.

Characteristics of Negotiable Instruments

- Certain Time of Payment- It means that the instrument must be payable at a certain time

• Payee must be certain- This shows that the individual in whose favor the instrument is made must be named or described with reasonable certainty

• Signature- A negotiable instrument must be signed by its maker.

• Essence of Delivery- It is essential that the instrument must be delivered.

• Stamping- The stamping of Bills of Exchange and Promissory Notes is mandatory by law. The respective instrument must be duly stamped as per the Indian Stamp Act, 1899.

• Right to sue- The transferee of a negotiable instrument is entitled to file a suit in his own name for enforcing any right or claim on the basis of the instrument.

• Transfer Notice- The notice of transfer of a negotiable instrument is not necessarily to be given to the party liable to pay the same.

Characteristics of Negotiable Instruments

- Presumptions- There are some presumptions applicable to all negotiable instruments.

• Transfer- The negotiable instruments can be transferred as and when required till they reached at their maturity.

• Rule of evidence- The negotiable instruments are in written form and duly signed by the parties, and therefore, they can be used as evidence of the fact of indebtness in the court of law because they have special rules of evidence.

• Exchange- The negotiable instruments are concerned with the payment of certain money in legal tender, and hence they are regarded as substitutes for money and are accepted in exchange of goods because these are easily converted into cash by discounting and rediscounting.

Types of Negotiable Instruments

- According to the Negotiable Instruments Act, 1881,
- Promissory note,
- Bill of exchange and
- Cheque only.
- However, some other documents are also recognized as negotiable instruments on the basis of custom and usage, like hundis, treasury bills, share warrants, etc., provided they are featured with negotiability.