

★ → This Act came in 1881 & amended in 2002
★ → 2015
★ → 2018.

★ → This Act applies to the whole of India
★ → except RBI (Refer sec. 21 RBI Act)

→ This Act does not define NI but in sec. 13
it says NI are of 3 types

→ Payable to BEARER
OR ORDER

SECTION	4	PN
	5	BoE
	6	cheque

How ? To Transfer



4

(प्राप्त)
Delivery
(मेरे)

Indorsement
Endorsement

D

When no name is mentioned

By signing
OR.
Naming the Person

I+D

Nego.

Result

Transfer करके हुआ क्या?

1

⇒ RIGHT to receive money.

PROPERTY transfer

2

⇒ FOR Value. & Consideration

3

⇒ Bonafide (Good faith) Purchaser



A Negotiable Instrument is an instrument (legal document) which is freely transferable from one — person to another unlimited times **TILL SATISFACTION.**

What? ↑

Time →

Maturity Payment

How? → By mere delivery or **मालिक (BEARER)**

→ By indorsement with delivery (**ORDER**)

To Whom? → To Bonafide (Good faith) Purchaser / Transferee

For what? — Value or Consideration

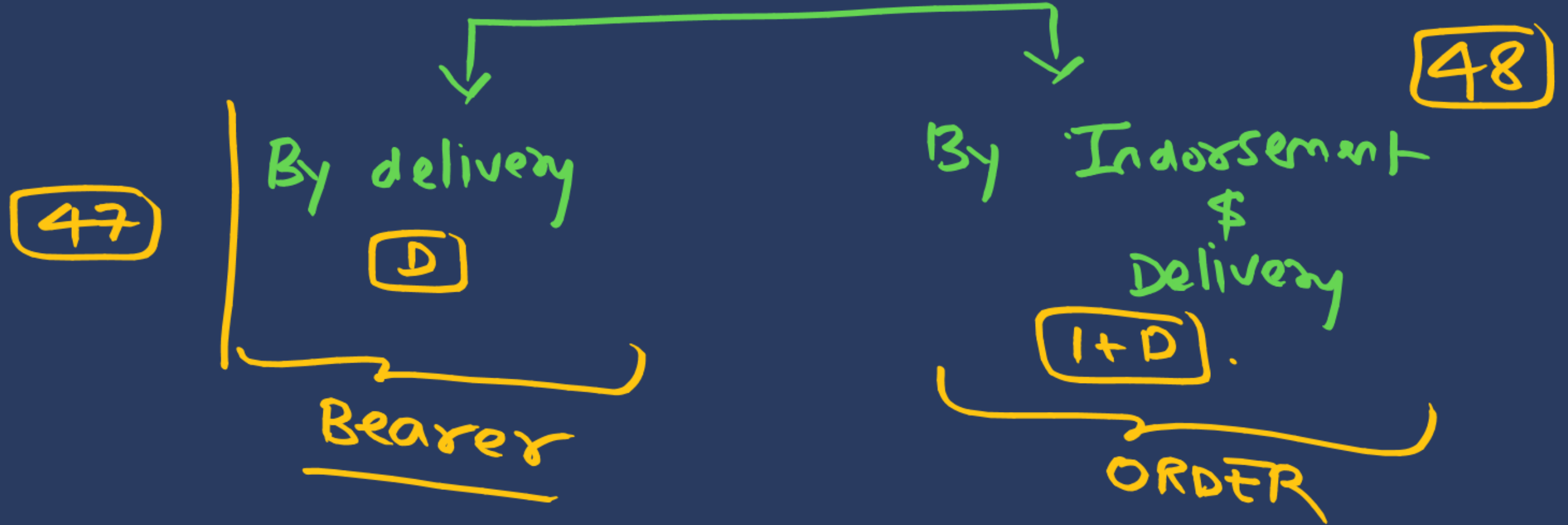
Does not contain any words Prohibiting the Transfer



SECTION 14 = Transfer (Negotiation)



of
NI



Subject to
58

Should not be for Unlawful Means / Considⁿ



"Bearer instrument" and "order instrument" [Section 13]

Bearer Instrument:

- It is an instrument where the name of the payee
 - (1) ○ Is blank or
 - (2) ○ Is specified with the words "or bearer" or
 - (3) ○ where the last indorsement is (blank.)

Bearer = By mere Delivery *

Order Instrument:

- (1) ● It is an instrument which is payable to a person or ^{* Payee}
- (2) ● Payable to a person or his order or
- (3) ● Payable to order of a person or B's order
- (4) ● where the last indorsement is in full

Order = By Indorsement + Delivery

BUT YOU NEED TO UNDERSTAND - ENDORSEMENT - Signing

FOR = जो sign करता है।
FREE = जिसको दिया जाता है।



BLANK Endorsement

and

FULL Endorsement

★
★
★
When NO Name is mentioned

When Name is mentioned

When Endorsee name is not mentioned

When Endorsee name is mentioned

Blank ←
BEARER

L	S
A	T

→ FULL
ORDER



TYPE OF NI



BEARER

ORDER

⑬

@ TIME OF MAKING

⑭

@ TIME OF NEGOTIATION



- ① - Payee का नाम ✗
- ② - Payee का नाम ✓
But
साथ में "OR Bearer"

- ① - Payee ✓
- ② - Payee + order
- ③ - Payee's order

- ③ Last endorsement
Blank
Fee का नाम ✗

- ④ Last endorsement
FULL
Fee का नाम ✓



47 = Mere delivery



exception = If certain condition is there then
NI cannot be transferred until that event-
happens.



दो ↓

exception ⇒ If such NI is negotiated to such person
who is a Holder in Due Course (means who
has No Knowledge of such condition), he
will have title free from any defects.

★ Section 46 :-

★ (1) Delivery is very important because until delivery happens the contract in the NI is incomplete and revocable.

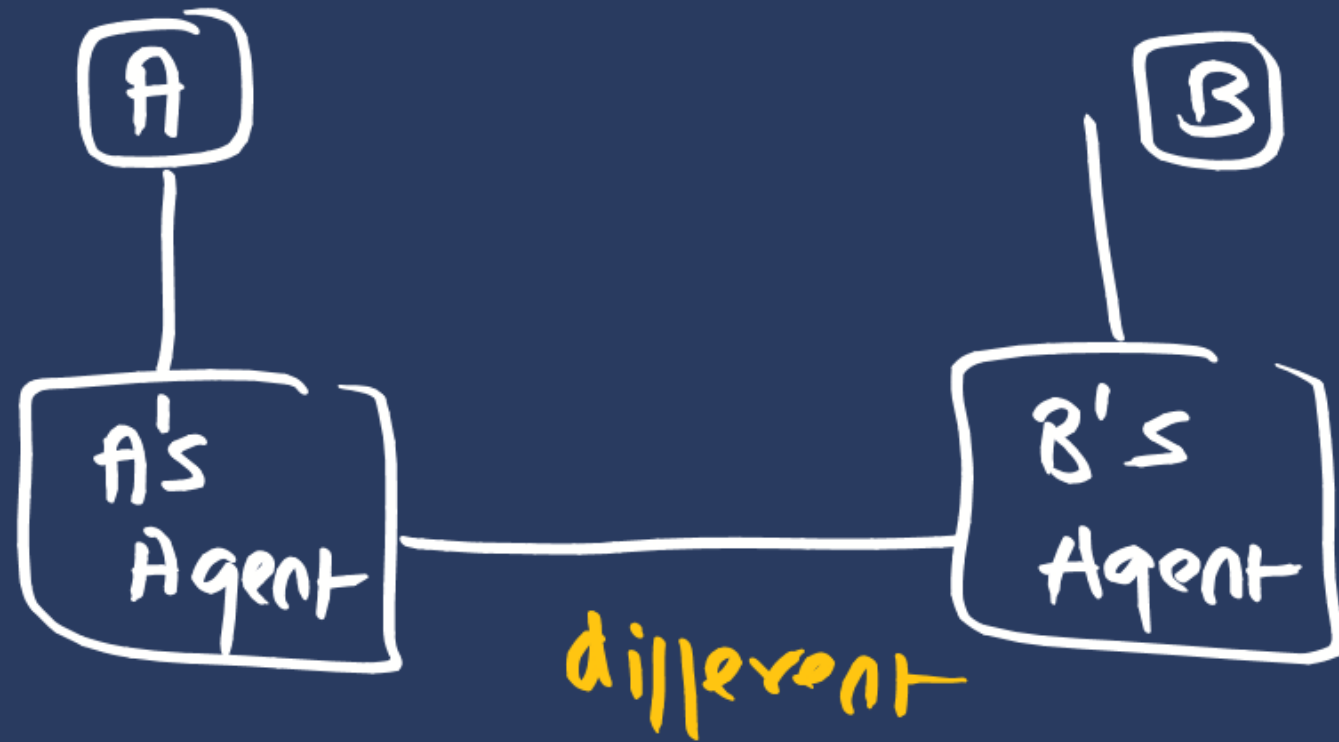
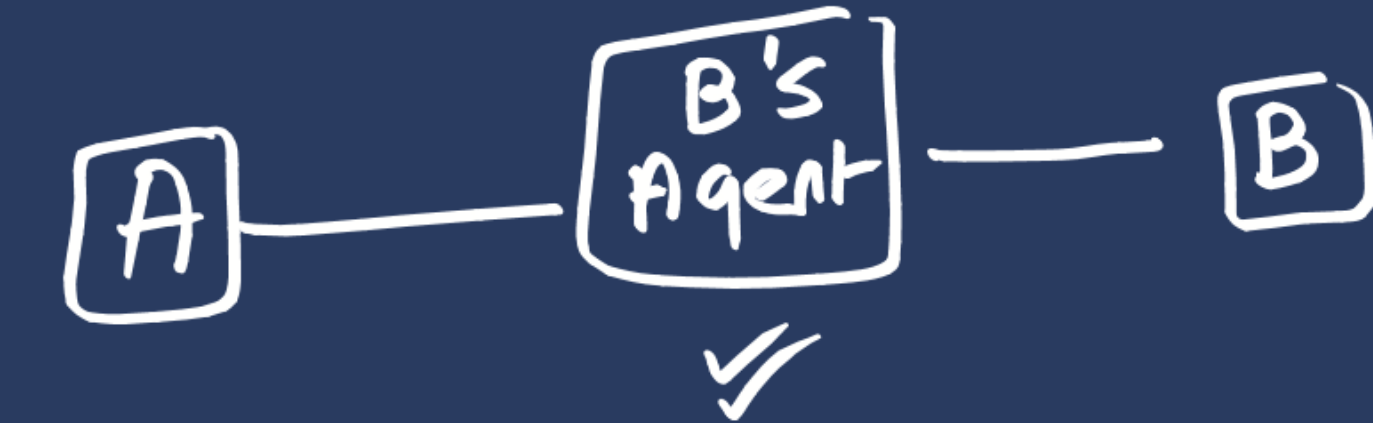
(2) Delivery must be voluntary

(3) Delivery is done for the purpose of transferring the Property of NI.

(4) Actual / constructive.

CD ① ✓✓

CD ② ✓



③ CD



Pappu

↓
acknowledge

Common Agent.

★ Delivery = Importance

★ (1) Delivery is important at the time of making/creation of NI But

★ It is also important at the time of Negotiation (Trf.)

(2) SECTION - 57 = Endorsed but NOT Delivered

If a person endorsed the NI but before he could deliver it, Endorser dies then the legal representative (LR)

of the deceased person CANNOT deliver/negotiate/complete the NI.



→ Payable to ORDER



Deceased

आर LR करेगा
{ Mere delivery }

LR IS NOT AN
AGENT
OF DECEASED
PERSON

★ Inchoate Instrument :- SECTION - 20

- ★ (1) It is an instrument which is INCOMPLETE either wholly or partially in certain aspects.
- ★ (2) This instrument is signed and delivered by :-
Maker / Drawer / endorser / acceptor
- (3) To another person who becomes the holder and he has authority to complete the instrument.
- (4) By writing the amount within the limits specified or stamp affixed on it.

★ Liability of Drawer/ Maker towards :-

★ (a) Holder → Can recover upto Intended amt.

★ (b) HDC → Can recover upto stamped amt.

Sec. 20 PRINCIPLE OF ESTOPPEL ✳ (जो वक्ता किया वो निभाना पड़ेगा)

Inchoate Instrument - is based on this principle.

When Drawer/ Maker gives authority to Holder to act in a certain way i.e. to complete the instrument so now Drawer/ Maker cannot deny/ stop the other party.

Ambiguous Instrument



↓ Ambiguity / confusion / unclear

अस्पष्ट - Vague / Not clear

Why? because NI has the properties of both - PN & BOE

Could be a PN	Could be a BOE	<u>Holder</u> may at its election	<u>Once selected</u> <u>Cannot change</u>
------------------	-------------------	--------------------------------------	--



- Section 17 **AMBIGUOUS Instrument**.
- Where an instrument may be construed either as a promissory note or bill of exchange,
meaning
- the holder may at his election treat it as either, and
- the instrument shall be thenceforward treated accordingly."
- Thus, an instrument which is **vague** and cannot be clearly identified either as a bill of exchange, or as a promissory note, is an ambiguous instrument.
unclear
- In other words, such an instrument may be construed either as promissory note, or as a bill of exchange.
- **After exercising** his option, the holder cannot change that it is the other kind of instrument. **X**

X

RULES FOR INLAND Instrument

INLAND Instrument

INLAND नहीं तो AUTOMATIC
FOREIGN INSTRUMENT

STEP 1 :-> COMPULSORY CONDITION -> **CC**

|| India में Made / Drawn होना चाहिए ||

STEP 2 :-> SECONDARY CONDITION -> (कोई भी एक) **SC**

Payable in India

OR

Drawn on RO I

{ या तो हिसाब अपने देश में हो }
{ या अपना बन्दा हिसाब करे }

IF **CC** में ही बाहर then No need to check **SC**





Note:-

Do not use the words - in Inland / Foreign I.

Compulsory condⁿ & Secondary Condⁿ.

These are used only for understanding purpose



SECTION - 134



(1) Liability of maker / drawer of PN
BoE
cheque }

will be regulated by the rules / law of the country where it has been drawn / made

(2) Liability of an Acceptor / Endorser will be regulated

by the rules / law of the country where the instrument is Payable.



Example - 134

→ BoE draw Mr. A ^{Drawer} = California (USA) — Interest @ 15%.

→ BoE accepted Mr. B ^{Drawee} = England (UK) — @ 6%.
Payable in England.

→ Indorsed
B — C — D — E = India — @ 12%.
_{A A A}
DISHONOUR.

- | | | |
|--------------------|--|---------------------|
| A | | B |
| - Maker/Drawer | | - Acceptor/Indorser |
| - California (USA) | | - England (UK) |
| - 15% | | - 6% |



PN = 4



= It is an instrument - - writing - signed by maker



= Unconditional - Undertaking (Promise)

= to pay - certain sum of money

- certain person

OR - to order of certain person

OR - **Bearer of Instrument.**

RBI & CG can only make PN payable to Bearer as per sec. 31 of RBI Act 1934.

allowed

{ CERTAIN }
{ CONDITION }

which are bound to happen in ordinary mankind.

★ Essentials of a PN :-

★ (1) WRITING = not ORAL = not sufficient

★ (2) Signed by Maker otherwise ineffectual

★ (3) PROMISE to pay \Rightarrow Acknowledgment IOU | Mere acknowledgment is not-sufficient.

(4) Unconditional Undertaking / Promise = Exception
Certain conditions which are bound to happen as per ordinary Mankind eg: death

(5) Certain (sum) = $\begin{cases} \text{if ascertainable} \\ \text{if calculate \checkmark allowed} \end{cases}$

- Person = Maker / Payee = Dill. Person (must be)
- Time

(6) Stamped = Should be cancelled by sign / initials



A PN can be made Payable to Bearer

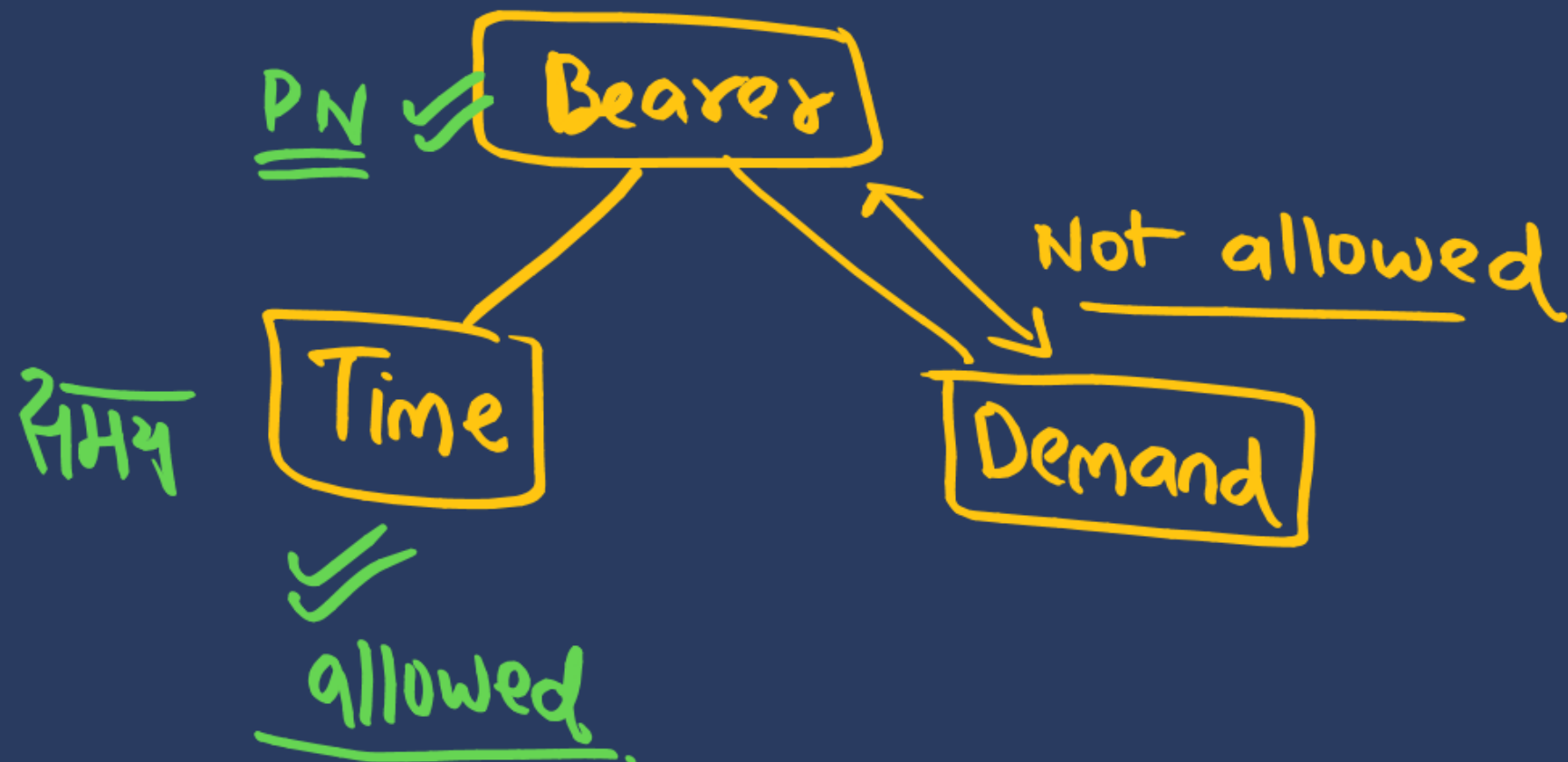
As per **NIA** = YES

But

Bearer + demand

As per RBI Act = sec. 31 - It is not allowed

✂



★ Payable to Bearer
★ In case of PN
★

PN

ORDER

BEARER

Time ✓
Demand ✓

Time X
Demand X

NOT allowed



- ① I Promise to Pay DJ or his order Rs. 10,000 on demand
- ② I _____ DT or order Rs 10,000 after 1 month (After sight)
- ③ I Promise to Pay DJ / order 10,000
- ④ I Promise to Pay bearer sum Rs. 10,000 (At sight)
- ⑤ I promise to pay Bearer 10,000 after 1m.
- ⑥ I promise to pay 10,000 to MR. DJ or Bearer

Allowed	O/B	T/D	
YES	<u>0</u>	<u>D</u>	
YES	0	T	
YES	<u>0</u>	<u>D</u>	
No	<u>B</u>	<u>D</u>	FORM 31
No	B	T	
No.	<u>B</u>	<u>D</u>	



PN

Person

MAKER

Payee

DIFF
PERSON

BOE

DR

pee

DEE

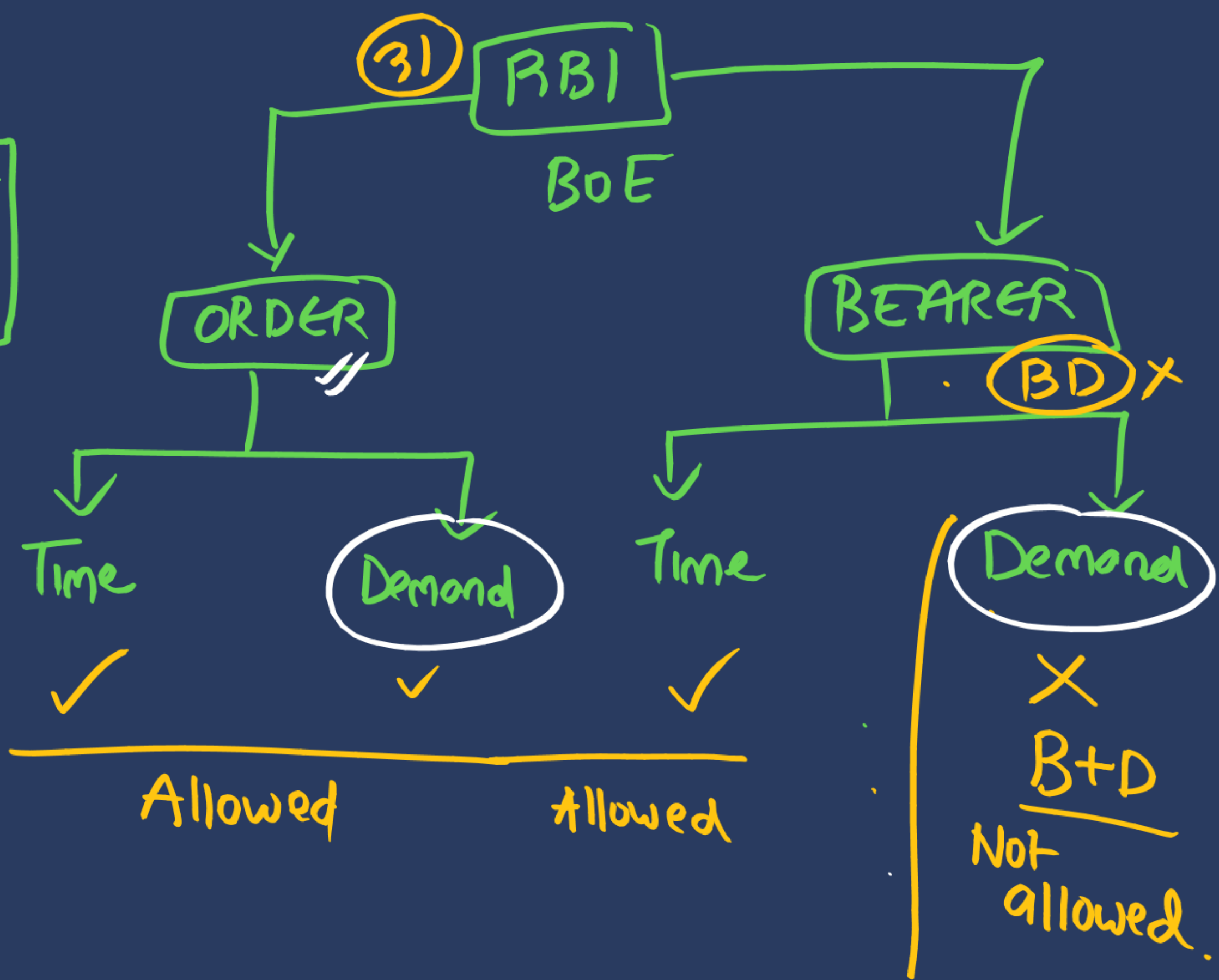
Not necessary that all the parties are different

[Drawer & Payee ^{may be} could be
the same or not]

Not compulsory



Payable to Bearer
in case BoE



★ Summary for BoE = Section 5

★ ⇒ Definition & All Essential elements are same as PN

★ except :-

- ① unconditional orders to Pay
direction to Pay.
- ② Three parties
- ③ Drawer & Payee could/may be same person
- ④ BoE cannot be made payable on demand & bearer together. (Sec. 31 g RBI Act 1934)

RBI

From Bearer
दल Angle

From Demand
दल Angle

BD is not allowed but BT is allowed.

OR
Demand to Bearer is not allowed but
Demand to order is allowed

★ Cheque = Section 6 ★

- (1) Cheque is also a BOE.
- (2) But in case of cheque = Drawee is always fixed = Bank★
- (3) No acceptance is required for cheque.
- (4) Cheques are always Payable on Demand★.
- (5) Cheques can be post dated and they are valid for 3M.
- (6) Cheques has 3 parties where Payee could be Drawer himself or any III party.
- (7) All essential elements of BOE are present except ②★
- (8) All cheques are BOE but all BOE are not cheques. Stamp Not Req.



(9) Cheques Includes -

electronic cheque

E - cheque

- Bank की website
- E - cheque
- fully online cheque

कभी paper पर आया ही नहीं

- ये शुरुवात से computer means online ही है।

Truncated cheque

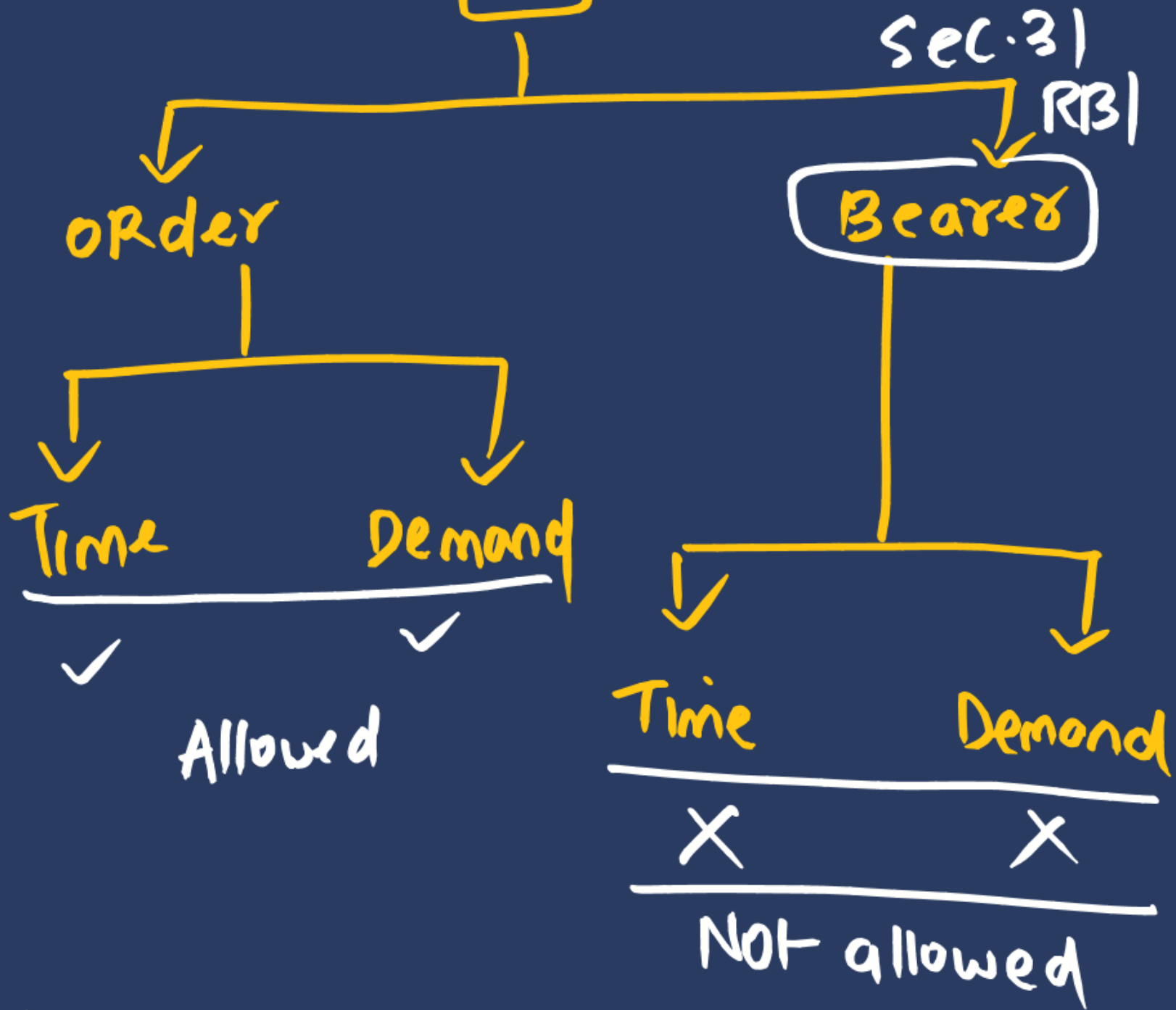
की electronic image.

- originally made physically
- but later on converted by converting into an image.

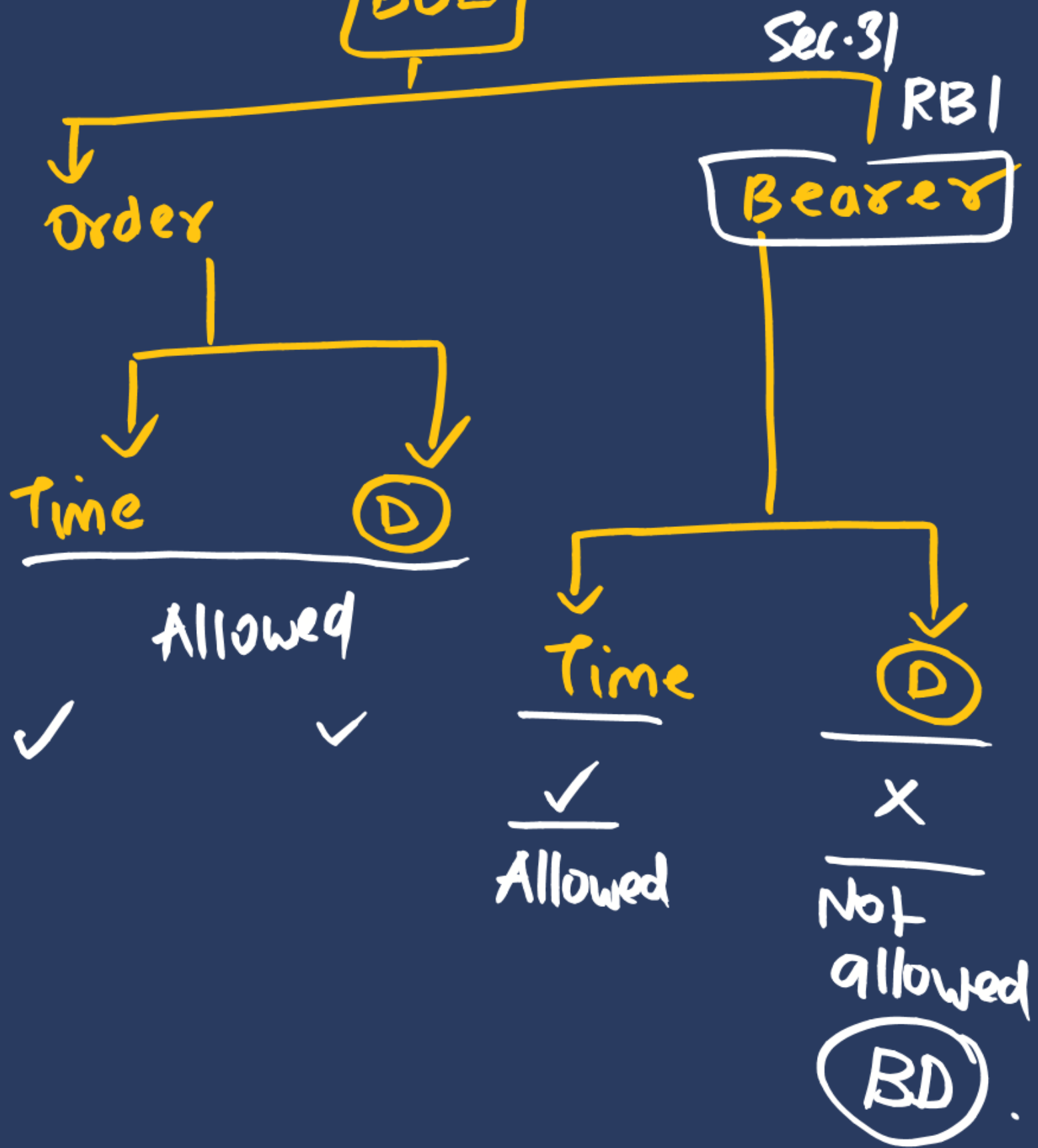
→ शुरू (paper) बना फिर → electronic image

BOE	DDAS	CHEQUE
ACCEPTANCE OF DRAWEE IS REQUIRED ✓	(A)	NOT REQUIRED ✗
<u>DRAWEE CAN BE ANY PERSON</u>	(D)	<u>BANK (ALWAYS)</u>
<u>STAMPED ALWAYS</u>	(S)	<u>NOT REQUIRED</u> ✗
<u>TIME AND DEMAND</u> - <u>BOTH</u>	(D)	<u>ALWAYS DEMAND</u> ✓

PN



BOE





A bill of exchange ONLY payable on demand



In which name of the payee is mentioned = VALID

On Demand ✓ if payee name is mentioned

To Bearer + On Demand ✗ No – Not possible



★ ★ Why ? cheque has been DH ?



Reasons — ① Insufficiency of Funds



138 will apply \$ Penalty will take place

CRIMINAL offence



OR

② Any Kind of Agreement with the Bank. (arrangement instructions given by the cust)

eg: LIMIT set by the customer.

eg: STOP Payment.

eg: Technical issues like sign mismatch, over writing in the cheque etc.

★ SECTION 139 ⇒ Presumption in favour of Holder

★ (1) Court always presumes that the cheque which got dishonoured was given to discharge debt / liability.
(wholly / partly)

★ (2) Drawer of the cheque can challenge the presumption (REBUTTABLE)

(3) Burden of Prove is on accused. (Drawer) = Evidence of

SECTION 140 = आपूण वगैरे अर्थाने है ? = Drawer

Drawer cannot use this as a defence in prosecution that i had No reason to believe when i issued the cheque.

★ When person committing offence under sec 138
★ is a company then at the time of
★ offence was committed, every person who was
in charge or responsible for the conduct of the Co.
and company itself shall be held liable. **Sec. 141**



PRESENTMENT

64

FOR Payment

PN
BoE
CH

→ MAKER
→ ACCEPTOR
→ DRAWEE

61

FOR Acceptance

only BoE

ACCEPTOR
ACCEPT
✓

ACCEPTOR
ACCEPT
✗

DISHONOUR BY - NON ACCEPTANCE

Payment Made

DISCHARGE OF NI.

Payment not-Made

DISHONOUR BY NON - PAYMENT.

DOE

PRESENTMENT FOR ACCEPTANCE



If to be presented at a particular place = ①

It must be presented at that place

If nothing is mentioned

Reasonable Time

Business hours

Business Day

Place of Business

②

ALLOW 48 hours to the holder to accept the bill (Exclude PUBLIC HOLIDAYS) ③

If the drawee cannot, after reasonable search, be found, the bill is dishonoured. ④

— ACCEPTOR 99/9/91

In **default** of such presentment, no party thereto is liable ⑤

63

PRESENTMENT FOR PAYMENT



Time Instrument	At Maturity
Demand Instrument	Reasonable Time
Hours	Usual Business Hours
A PN payable by instalments	Must be on the 3rd day after the date fixed for payment of each instalment
Payable at a specified place	Payment at that place
If NO exclusive place	Then at the place of business (if any) or at the usual residence
When maker has NO known place of business or residence then such presentment	May be made to him in person wherever he can be found
For Acceptance or payment present to	<ul style="list-style-type: none"> Agent In case of death - Legal Representative In case of insolvent - Assignee

75

50,000 01/01
50,000 01/02

Add Grace days

POB / usual residence

LR ✓
Assignee

76

* (IMPORTANT JOB DIRECT TQ.) *



WHEN PRESENTMENT UNNECESSARY

①

Intentionally prevents

②

Closes Place of business

Some other place & Nobody ③ attends the place

④

Cannot be found

⑤

some other party pays

⑥ makes a part payment or promises to pay ✓

Drawer would not suffer any ⑧ damage ✗

⑦ Waives his right in case of default in presentment

बहाने बाज़ी



⑦



1. Expenses properly incurred in presenting, noting and protesting it



2. If resides at a place different then entitled to receive such sum at the current rate of exchange between the two places;

SEC. 117

3. With interest at 18% per annum from the date of payment until payment