Negotiable Instruments Act and Important Sections

Negotiable instruments recognized by **Negotiable Instruments Act 1881** are: (i) Promissory notes (ii) Bills of exchange (iii) Cheques.

A negotiable instrument is a piece of paper which entitles a person to a sum of money and which is transferable from one person to another by mere delivery or by endorsement and delivery.

There were total 142 Sections in the Negotiable Instruments Act 1881 when came into force. The act was amended and amendment Act inserts five new sections from 143 to 147 touching various limbs of the parent Act and Cheque truncation through digitally were also included and the amendment Act has been recently brought into force on Feb. 6, 2003.

Some important sections are listed below:

Section 4 of the Negotiable Instruments Act 1881 defines the promissory note, "A promissory note is an instrument in writing (note being a bank-note or a currency note) containing an unconditional undertaking, signed by the maker, to pay a certain sum of money to or to the order of a certain person, or to the bearer of the instruments."

Section 5 of the Act defines the bill of exchange, "A bill of exchange is an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument".

Section 6 of the Act defines the cheque "A cheque is a bill of exchange drawn on a specified banker, and not expressed to be payable otherwise than on demand".
All cheque are bill of exchange, but all bills are not cheque.

- Section 6(a) defines 'a cheque in the electronic form'
- Section 6(b) defines 'a truncated cheque'

Section 7 of the Act gives definition of 'drawer' and 'drawee'. The maker of the bill of exchange or cheque is called "drawer" and the person thereby directed to pay is called the "drawee"

Section 13 of the Act states that a negotiable instrument is a promissory note, bill of exchange or a cheque payable either to order or to bearer.

Section 18. Where amount is stated differently in figures and words: If the amount undertaken or ordered to be paid is stated differently in figures and in words, the amount stated in words shall be the amount undertaken or ordered to be paid.

Section 19. Instruments payable on demand: A promissory note or bill of exchange, in which no time for payment is specified, and a cheque, are payable on demand.

Section 22. "Maturity". The maturity of a promissory note or bill of exchange is the date at which it falls due. The section **also defines days of grace**.

Section 25. When day of maturity is a holiday: When the day on which a promissory note or bill of exchange is at maturity is a public holiday, the instrument shall be deemed to be due on the next preceding business day.

Section 45. Holder's right to duplicate of lost bill.

Section 58. A promissory note, bill of exchange or cheque payable to bearer **is negotiable by indorsement and delivery thereof**.

Section 78. To whom payment should be made: Payment of the amount due on a promissory note, bill of exchange or cheque must, in order to discharge the maker or acceptor, be made to the holder of the instrument.

DISHONOUR OF A NEGOTIABLE INSTRUMENT

When a negotiable instrument is dishonoured, the holder must give a notice of dishonour to all the previous parties in order to make them liable. A negotiable instrument can be dishonoured either by nonacceptance or by non-payment. A cheque and a promissory note can only be dishonoured by non-payment but a bill of exchange can be dishohoured either by non-acceptance or by non-payment.

Section 91: Dishonour by non-acceptance

Section 92: Dishonour by non-payment

Section 138: Dishonour of cheque for insufficiency, etc., of funds in the account

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