

# Negotiable Instruments: All You Need to Know



## Negotiable Instruments

It is a document, used for making payment of a specific amount of money on demand and at a specific time, with the payer name on the instrument. These are fully transferable from one person to another. Negotiable Instruments can be converted into liquid cash subject to certain condition.

The law and the framework, which governs the transaction of these instruments known as Negotiable Instruments act, framed in 1881.

According to section 13, “A Negotiable Instruments means a promissory note, bill of exchange, or cheque payable either to order or to bearer”.

## Features of Negotiable Instruments:

- It is easy to transfer from one person to another.

- The holder of Negotiable Instrument has the right to sue upon the instrument in his own name.

## **Negotiable Instruments by statute are three types**

1. Promissory note
2. Bills of exchange
3. Cheques

### **Promissory note:**

It is an unconditional legal instrument in which one party promises in writing to pay a sum of money to the other party on demand or on a fixed date. It contains date, sign of drawer (who make the promissory note), a definite amount with the rate of interest and the total sum, which will be paid.

### **Bill of exchange:**

It is a written unconditional order to pay a definite sum of money from one party to another on demand or on a fixed date with an intermediary to pay the sum. It contains the term bill, the name of the person who pay the sum (drawee), the name of the person to whom the payment is made, the signature of drawer.

### **Cheque:**

It is a bill of exchange drawn on a specified bank and expressed to be payable on demand. Also includes electronic image of truncated cheque and a cheque in the electronic form.

**Truncated cheque means,** It truncated during the course of a clearing cycle, either by bank whether paying or receiving payment or by the clearinghouse by generating an electronic image for transmission, which substitute the further physical movement of the cheque in writing.

**A cheque in the electronic form** is contains the exact mirror image of a paper cheque, and is generated, written and signed in a secure system ensuring the minimum safety standards with the use of digital signature and asymmetric crypto system

### **Letter of Credit:**

It is a document issued by a financial institution assuring payment to a seller of goods and services provided certain documents have been presented to the bank. It prove that the seller has performed the duties under the contract and the goods have been supplied as agreed.