Characteristics of Negotiable Instruments

Introduction –

Negotiable instrument is like a contract. It is a document with set of rules which guarantees the payment of a certain amount of money at a set of time. In this document the payer’s name is mentioned. The time with in which the money is to be paid is decided by the payer (the person who is paying) and the payee (the person who is receiving the money from the payer). The law, in which the subject of negotiable instrument is mentioned, is the Negotiable Instrument Act, 1881 (the act defines in details the law relating to negotiable instruments). Prior to this act, the provisions of the English Negotiable Instrument Act were applicable in India and the present act is also based on the English act with certain modifications. This is the written document which acts as the proof that the payer has to pay a specific amount of money to the payee within a certain time. After the payment is made within due time as mentioned in the negotiable instrument, the document is null and void but if the payer fails to pay the money then the payee has the right to go to the authority and register a complaint against the payee for not fulfilling his end of the bargain as stated by him in the document. The negotiable instrument is one of the safest option by which the payee can get money from the payer. Most common types of negotiable instruments are as follows –

- Promissory notes
- Bills of exchange
- Cheques
- Government promissory notes
- Delivery orders
- Customer receipts etc.

Essential features of Negotiable Instruments -

There are many features of negotiable instruments. Some of the most important features are as follows –
• **Payer and payee:** Without payer and payee there cannot be any negotiable instruments. The person who will pay the money is called *payer* and the person who will receive the money is called *payee*.

• **Written document:** The document has to be written to be a negotiable instrument. It also should contain the details according to the rules mentioned in the different types of negotiable instruments.

• **Signature:** Signature is the most important feature of negotiable instruments. Without signature, a negotiable instrument is null and void. So, the parties involved in the negotiable instruments must sign the document as mentioned in the rules.

• **Amount to be paid:** The amount of money that is to be paid by the payer should be mentioned clearly in the negotiable instruments.

• **Transferability:** A negotiable can be transferable if the payee wants it to be. But it can also be made non-transferable by using certain words like paid only etc.

**Characteristics of Negotiable Instruments -**

1. **Property** – The processor of the negotiable instruments is considered as the owner of the document. A negotiable instrument does not just give possession of the document but the right of property also. The property can be transferred and in that case the payer will give the money to the bearer of the property.

2. **Title** – The holder in good faith and for value called the “*Holder in due course*” gets the instrument free from all defects of any previous holder.

3. **Payment** – A negotiable instrument enables the holder to expect prompt payment. The instrument may be made payable to two or more payees jointly.

4. **Rights** – The transferee of negotiable instrument can take legal action in his own name, in case of dishonour. A negotiable instrument can be transferred many number of times till the date of maturity. The holder of instrument need to give notice of transfer to the party legally responsible on the instrument to pay.

5. **Presumptions** – Certain presumptions apply to all negotiable instruments like a presumption that consideration has been paid under it. The words ‘for value received ’ or similar expressions like that is not necessary to write in the promissory note because the payment of consideration is presumed.
**Conclusion -**

Negotiable instrument is a document that guarantees payment of specific amount of money within a set of time. The negotiable instruments rules are guided by the Negotiable Instruments Act, 1881. This document is the proof that the payer will give a certain amount of money to the payee. However, this document is transferrable and can be transferred any number of times till the maturity date but if it is mentioned specifically that the document will remain with the person who originally owed the money then the document cannot be transferred. If the payer fails to give the money or dishonour the negotiable instrument, then legal action can be taken against that person and the negotiable instrument then will act as evidence in the eyes of law. There are many kinds of negotiable instrument and some of the most important ones are promissory notes, bills of exchange etc. The negotiable instrument should be signed and the payer name should be mentioned or else the document is null and void.

Negotiable instrument is an effective way of payment of money and also acts as a guarantee all by itself. It is very popular and is commonly used because it itself acts as an evidence in case the payer fails to pay the money. It acts like a contract. It ensures that the payer will pay the money. The Negotiable Instruments Act, 1881, talks about only three instruments – promissory notes, bills of exchange and cheque but it does not exclude the possibility of adding any other instrument which satisfies the following two conditions of negotiability:

1. The instrument should be freely transferable (by delivery or by endorsement. and delivery) by the custom of the trade and
2. The person who obtains it in good faith and for value should get it free from all defects, and be entitled to recover the money of the instrument in his own name.

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