

Al-Saudia Virtual Academy
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NEGOTIABLE INSTRUMENT:

Definition:

Negotiable: It means transferable from one person to another. The consideration is essential for transferability.

Instrument: It means a written document by which right is created in favor of some person.

So in simple words negotiable instruments are those documents which make certain persons being entitled to certain sums of money, and these documents are transferable from one person to another by simple delivery or by endorsement and delivery.

According to SEC 13 (a) of Negotiable Instruments act.

“Negotiable instruments means a promissory note, bill of exchange a cheque payable either to order or bearer, whether the words order or bearer appear in the instrument or not”.

Accounting to Justice Wills:

Negotiable Instrument is, the property in which is acquired by anyone who takes it bonafide and for value notwithstanding any defect of title in the person from whom he took it.

“Negotiable Instrument are called negotiable instrument because of the following characteristics”.

Characteristics of Negotiable Instrument:

Following are the characteristics of Negotiable Instrument.

Freely Transferable:

The ownership of negotiable instrument is transferable by delivery if it is payable to bearer. If it is payable on demand, ownership passes from endorsement and delivery.

Title Free of all Defects:

The holder in due course of such instrument is free of all kinds of defects in the act of the transferors. This means that if you take a promissory note even from the thief, you (in good faith) can lawfully operate that note.

Entitled to Receive Money:

The holder of the negotiable instrument is entitled to receive money mentioned on it.

Recovery:

The holder in due course of negotiable instruments can sue such defaulting parties, in his own name without giving any intimation to the drawers of his becoming holder.

Conclusion:

So negotiable instruments are bills of exchange, promissory note, cheque and these documents are called negotiable instruments just because the negotiable instruments act defines them so and further they are.

1. Freely transferable.
2. Ownership passes on with mere delivery.
3. Holder in due course is entitled to receive payment.
4. And holder in due course can sue in his own name to all concerned parties.