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NEGOTIABLE INSTRUMENTS, NIA ACT 1881

What is a **negotiable instrument?**

Negotiability of an instrument depends on **2 criteria -**

1. **Price Rigidity -** The **price** of the instrument is **not firmly** established, and can be **adjusted** depending on the **circumstances**. If it **cannot be adjusted** or be **changed**, then it is **non-negotiable**.
2. **Transferability -** The instrument can be **transferred** from one **party** to another, provided all proper **documentation** are included and **valid**. But if the **ownership cannot be transferred**, then it is deemed to be a **non-negotiable** instrument.

For example, **Certificate of Deposit (CD)** is a **negotiable** instrument, whereas Indian **Government Savings** bonds are **non-negotiable** instruments.

Negotiable Instruments Act, 1881 (India)

It is a **British colonial age** act that is still in use. It defines **3 types** of **negotiable instruments** that are widely used in Indian market - **Promissory Notes, Bills of exchange, Cheques.**

Before going into the topics, let some **concepts** be cleared first -

- **Unconditional Undertaking / Promise -** You are promising or undertaking to pay **without** any condition
- **Unconditional Order -** You are providing an **order** (to someone, or some institution, or bank) to pay **without** any condition

Two more concepts -

- **Pay to Bearer -** Pay the amount to, **whoever** comes with (**bears**) the **instrument** and demands to be paid
- **Pay to Order -** Pay to a **certain person**, not anybody

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