

BHARAT SCHOOL OF BANKING

NEGOTIABLE INSTRUMENTS - PROMISSORY NOTES, BILLS OF EXCHANGE, CHEQUES

Promissory Notes –

It is a **negotiable** instrument in **writing** with an **unconditional undertaking/promise**, signed by a **maker**, to **pay** a certain amount of money to the **order**, or **bearer** of the instrument.

What we get from the definition?

- It should be in **writing**
- It is an **unconditional undertaking / promise** to **pay**
- It should be **signed** by the **maker / issuer**. Remember it involves only **2 parties** - the **maker** and the **payee**.
- **Payable** to both **bearer** and **order** of the instrument

Bills of Exchange -

It is a **negotiable** instrument in **writing** with an **unconditional order**, signed by a **maker, ordering** a certain person/institution, to **pay** a certain amount of money to the **order**, or **bearer** of the instrument.

What we get from the definition?

- It should be in **writing**
- It is an **unconditional order** to **pay** (not an **undertaking**) [refer previous post for the difference]
- It should be **signed** by the **maker / issuer**. Remember it involves **3 parties** - the **maker/drawer/issuer**, the **drawee** (may be a bank, or institution, or other person, whom the **drawer** is directing for payment to the **payee**) and the **payee** (whom the **drawer** is paying)
- **Payable** to both **bearer** and **order** of the instrument

Cheques -

It is a special type of **bill of exchange**, which is **drawn** on a **specified banker** (i.e., **drawee** is always **banker**), and not expressed to be **payable** otherwise than **on demand**.

What we get from the definition?

- It is a **special** type of **Bill of Exchange**, where **drawee** is fixed (i.e., the **banker**)
- As it a Bill of exchange, it is therefore an **unconditional order** to **pay**

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- It should be **signed** by the **maker / issuer** (i.e., the **account holder** of a **bank**). Remember it involves **3 parties** - the **drawer** (e.g. **account holder**), the **drawee** (always **banker**), and the **payee** (whom the **drawer** is paying)
- It should be paid **on demand** (i.e., whenever the **cheque** is presented to the **bank**)
- **Payable** to both **bearer** and **order** of the instrument

Example - The **drawer** is the **individual** who **issues** the **cheque**, instructing the **bank (drawee)** to **pay** the **recipient (payee)**

Note - In case of **cheque**, **drawee** is always a **banker** or **bank**, whereas in case of **BOE**, **drawee** could be **bank** or **any person**

Now try to clear the **differences** between these three -

	Promissory Note	Bill of Exchange	Cheque
Nature	Unconditional undertaking , or promise to pay	Unconditional order to pay	Unconditional order to pay
Parties	2 parties – maker, payee	3 parties – drawer, drawee, payee	3 parties – drawer, bank, payee
Liability	Liability of maker is primary	Liability of Drawer (maker) is secondary , drawee (e.g. bank) is primary	Liability of drawer (maker) is primary
Special cases	Maker and payee must be two different persons	Both drawer and payee may be the same person	Both drawer and payee may be the same person for Self-cheque
Acceptance	No need of acceptance of maker, while presenting for payment	Can be presented for payment only when it is accepted by drawee (acceptance is must, before drawee can be made liable upon it)	Does not require any acceptance
Conditions	A maker cannot put any conditions on it	Drawee can put conditions only if he accepts the bill	Can be drawn payable to bearer or on demand
Legality cases	If doesn't contain payee's name, but state to be payable to bearer , is illegal .	When made payable to bearer , it is not considered	Payable immediately on demand without any days of grace

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		as illegal (entitled to 3 days of grace unless it is payable on demand)	
Dishonor	If dishonored, no notice required	If dishonored, a notice of dishonor is required to be given by the holder (payee) to the maker of the bill (drawer)	Notice of dishonor is not necessary . Want of assets in the hands of banker is sufficient notice

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