



This Study material for IDBI Bank promotion exam 13.01.2024 has been distributed by All India IDBI Officers' Association (AIIDBIOA) to its members in December, 2023 in collaboration with Corporate Training and Development Institute (CTDI).

E-Booklet on
Negotiable Instruments
And
Payment & Settlement System



Preface

Dear Readers

This e-Book is a small part of our educational series for Bankers apart from our other periodicals. The Booklet contains every aspects of negotiable instruments, the various related acts and its practical aspects. The booklet may be useful for those who are preparing for Bank promotion examinations and for those dealing with Branch Operation and in Clearing Houses.

We are in the process of making complete study material covering each and every aspect of Banking and this booklet is a small portion covering all aspects of Negotiable Instruments.

Looking forward for your valuable suggestions and feedback

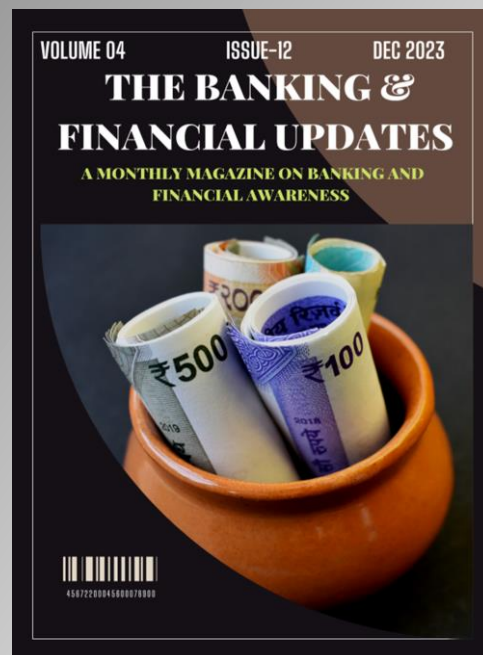
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NEGOTIABLE INSTRUMENTS ACT-1881

NI Act-1881 came into effect from **01.03.1882**. It has **148 Sections**. Latest amendment came in the form of Negotiable Instruments Amendment Act 2018 notified through Official Gazette on 2nd August 2018.

NEGOTIABILITY:

Negotiability is the unique feature that a negotiable instrument posse, which means, the instrument is freely transferable and the title of the transferee is better if he/she took the instrument for value and in good faith under such circumstances having no suspicion about any defect in the title of transferor. Such a transferee is called holder in due course.

Instruments which are not transferable are not Negotiable Instruments ab-initio such as Motor transport receipt, Dock Warrant, Wharfinger's Certificate, LIC Policy, Document of Title to Immovable Property, Airways bill, Time Deposit receipt, Share Certificate etc.

Instruments which are transferable but if the transferee doesn't get a better title than the transferor is also not a negotiable instrument as per NI Act such as Railway Receipt, Bill of Lading, Warehouse receipts etc which are termed as Quashi Negotiable Instruments.

TYPES OF NEGOTIABLE INSTRUMENTS:

As per NI Act: As per Section 13 of NI Act, there are three types of Negotiable Instruments i.e Promissory Note, Bill of Exchange and Cheque payable either to Order or Bearer of the instrument. These are also termed as Negotiable Instruments by Statue.

As per Section 137 of Transfer of Property Act: Documents related to Title of Goods like Railway Receipt, Bill of Lading, Warehouse receipt. (Airway Bills are not treated as Negotiable instruments).

As per Practice: Govt. Promissory Note, Treasury Bills, Certificate of Deposit, Commercial Papers.

IMPORTANT SECTIONS OF NI ACT:

Section	Details
4	Related to Promissory Note
5	Related to Bill of Exchange
6	Related to Cheque
7	Defines Drawer, Drawee, Drawee in case of need, Acceptor
8	Holder
9	Holder in due course
10	Payment in due course

11	Inland Instruments
12	Foreign Instruments
13	Definition of Negotiable Instrument
14	Defines the word Negotiation
15	Defines Endorsement
17	Ambiguous Instruments
18	Amount in Words and figures if differs, amount in words should be paid.
20	Inchoate Instruments
22	Regarding maturity and grace period for payment of Bill of Exchange / Promissory Note
25	Regarding Public holiday under NI Act and matters relating to bills maturing on holidays.
26	Capacity of Minor to Draw / Endorse Negotiable Instruments
31	Obligation of paying Banker to make payment of genuine instruments.
80	Interest rate when no rate is specified in the instrument.
85 (1)	Protection to Paying Banker against forged endorsement in Order Cheques
85 (2)	Protection to Paying Banker against forged endorsement in Bearer Cheques
85 (A)	Protection to Paying Banker against forged endorsement in Demand Drafts
89	Protection to Paying Banker against material alteration in a cheque.
99	Noting of Bill of Exchange / Promissory Note
100	Protesting of Bill of Exchange / Promissory Note
105	Reasonable time to be given for presentment.
123	General Crossing
124	Special Crossing
130	Not Negotiable Crossing
131	Protection to Collecting Banker
138	Dishonour of a cheque due to insufficiency of funds.
148	Minimum percentage sum (20% of the compensation awarded) to be deposited by drawer in case of appeal against conviction u/s 138 awarded by the trial court.

PROMISSORY NOTE (Section 4):

Promissory note is a financial instrument that contains a written promise by one party (the note's issuer or maker / Promisor) in writing (not being a Currency Note) to pay another party (the note's payee / Promisee) or his order a definite sum of money, either on demand or at a specified future date.

A promissory note typically contains all the terms pertaining to the indebtedness, such as the principal amount, interest rate, maturity date, date and place of issuance, and issuer's signature.

Promissory notes require stamping as per Indian Stamp Act.

Parties of a Promissory Note: There are basically two parties

1. **Maker / Promisor:** Who promises to pay. (Example- a borrower in case of a Bank loan)
2. **Payee / Promisee :** To whom it is payable (Example-The Bank in case of a Bank Loan)

Types of Promissory Note: There are two types of Promissory Notes

Demand Promissory Note which is payable immediately on demand.

Usance Promissory Note which is payable after a certain pre-decided period.

Promissory Notes payable to bearer: As per Section 31 of RBI Act, Demand Promissory Notes / Demand Bill of Exchange/ Hundis payable to bearer can't be issued by anybody except RBI and Govt. Of India since that is as good as Currency Notes and governed by Indian Currency Act.

BILL OF EXCHANGE (Section 5)

As per NI Act 1881, a bill of exchange is defined as an instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to, or to the order of a certain person or to the bearer of the instrument.

The essential features of a bill of exchange are:

- A bill of exchange must be in writing.
- It is an unconditional order to make payment a certain sum to a certain person.
- The maker of the bill of exchange must sign it.
- The date on which payment is made must also be certain.
- The amount mentioned in the bill of exchange is payable either on demand or on the expiry of a fixed period of time.
- It must be stamped as per the requirement of law.

Parties to a Bill of Exchange:

Drawer: The person who orders to pay. He is the person who is entitled to receive the money (i.e the Creditor or seller). He is required to sign the bill and send it to the drawee for acceptance.

Drawee: Drawee is the person on whom the bill is drawn. He is the person who owes the money and is directed to pay i.e the debtor or buyer of goods. Since a minor can't incur any liability, he can't be a drawee. The drawee becomes acceptor on acceptance of the Bill of Exchange for payment.



Drawee in case of Need: Another person to whom the bill is to be presented for acceptance/payment if the same is dishonored by drawee. A B/E can't be said to have been dishonored unless and until it is also dishonored by drawee in case of need.

Payee: The person to whom the money is payable. In most cases the drawer of the bill is himself the payee.

Drawee in case of need: When the bill mentions the name of the additional person in addition to the drawee it is known as drawee in case of need.

Acceptor for honor: When a BE has been noted or protested for non-acceptance and any person accepts it for honor of the drawer or endorsers, such person is called as acceptor for honor.

Types of Bill of Exchange: Following types of BOE exists based on their nature, period etc.

Demand Bill: Bill of exchange payable on demand or at sight or on its presentment and if no time is specified.

Usance Bill: A bill of exchange payable after some time at a future date.

Inland Bill of Exchange (Section-11): A Bill of Exchange which is drawn in India and is either payable in India or on a person resident in India. It has two main characteristics i.e

- i) It is always drawn in India i.e the drawer must be in India and
- ii) Payable in India but not necessarily by resident Indian or it may be payable/accepted/endorsed outside India but by a resident Indian.

Foreign Bill of Exchange (Section-12): A bill that is not an Inland Bill. A bill which is not drawn in India or made payable in India. The following bills may be classified as a foreign bill:

- i) A bill drawn in India but payable outside India by a person other than an Indian resident.
- ii) A bill drawn outside India but payable in India or drawn outside India on a person residing outside India but payable in India.
- iii) A bill drawn in India and payable outside India or drawn on a person residing outside India and is payable outside India.

Generally, a foreign bill is drawn in more than one set to overcome the loss in transit while sending for acceptance. The accepted copy received first becomes original and after that the other copies are treated as cancelled. These copies are called as **VIA**.

Documentary Bill: Bill accompanied by document of Title to Goods like Railway receipt, bill of lading etc.

Clean Bill: Bill which is not accompanied by any document of Title to Goods.

Accommodation Bill: When a bill is drawn for other than a trade transaction and issued without consideration is called accommodation bill and dealing with such bills is termed as **Kite Flying**.



Hundi: These are a type of Bill of exchange drawn in vernacular language as per the local use. A Hundi which has been paid up and cancelled is called **Khokha**.

Calculation of Due Date for Usance Bills/Promissory Notes:

- Usance bills should be presented for acceptance within a reasonable time as per usage and practice of that area. The drawee/acceptor is allowed **48 hours** excluding public holidays to accept the bill.
- While calculating due date it should be kept in mind that the due date is calculated from the Date of bill in case if it is payable after date and from the date of acceptance if it is payable after sight.
- If date of acceptance is not mentioned, then due date will be calculated from the date of bill.
- A Grace period of 3 days is allowed following Section 22 of NI Act in case of usance B/E or Promissory Note except where the due date is fixed on a particular day or it is specifically excluded.
- While calculating the maturity date, the day on which the instrument is drawn or presented for acceptance or sight must be excluded.
- If the period of usance is given in months and there is no corresponding day in the month on which the bill matures, last day of the month is taken into account. For example, suppose a bill dated 31st January 2019 payable 3 months after date will fall due on 31st April 2019 and since April has only 30 days 30th April will be considered as expiry date and after 3 days grace, 3rd May will be the due date for payment.
- As per Section 25 of NI Act if the Bill or Promissory Note matures for payment on Public Holiday declared under section 25 of NI Act, it becomes payable on the **next preceding business day**.

Examples on calculation of due date of Usance Bills:

1. What will be the due date of a bill dated 15.02.2008, payable two months after sight and accepted on 20.02.2008?

Solution:

Step-I: Since the bill is payable after sight due date to be calculated from the date of acceptance i.e. 20.02.2008

Step II: Add two months period after 20.02.2008 which will be 20.04.2008 (Calculation done by excluding the date of acceptance)

Step III: Add 3 days of grace to 20.04.2008 which will be 23.04.2008 is the due date and the answer.

2. What will be the due date of a bill dated 29.01.2004, payable One month after date?

Solution:

Step-I: Since the bill is payable after date due date to be calculated from the date of the bill i.e. 29.01.2004

Step II: Add one-month period after 29.01.2004 which will be 29.02.2004 (Calculation done by excluding the date of acceptance) but since the last date of the month is on 28th it will be 28.02.2004

Step III: Add 3 days of grace to 28.02.2004 which will be 03.03.2004 is the due date and the answer.

Dishonor of a Bill of Exchange:

A Negotiable Instrument can be dishonored either due by Non acceptance or Non-Payment. Upon dishonor, the holder should I) Give notice of dishonor to all prior parties i.e endorsers and II) get the Dishonored bill noted / protested.

Noting: On dishonor of a bill or Promissory Note, the holder may get it noted by a Notary Public as per Section 99 of NI Act. Noting is not applicable for Cheques and it is not compulsory for Inland Bills. Further the right of a holder is not affected by not getting the dishonored bill noted by a notary public.

Protest: It is dealt under Section 100 of NI Act. Protest is a certificate issued by a Notary Public containing the facts of dishonor.

If a bill gets dishonored by non-acceptance, then the holder can recover the amount from all prior parties except the drawee and the drawer will be the principal debtor. But in case of dishonor due to non-payment, then the holder can recover the amount from all prior parties including the acceptor. In this case, the acceptor (drawee) is the principal debtor.

Liability of an Endorser:

Liability of an endorser is same as that of maker/acceptor. However, the liability arises when he endorses and delivers an instrument. All the endorsers of an instrument remain liable till the payment of the bill is satisfied. However, liability of each endorser arises in relation to subsequent holder in due course. For Example, if A drew a cheque in favor of B, B endorses it in favor of C for value and C endorses it for value to D. If the instrument is dishonored, D the holder in due course has right to sue all prior parties A, B and C. However, if he chooses to sue C who makes the payment, C becomes holder in due course and has right to sue A & B.

Discharge of Endorsers liability: If the holder of the instrument, without consent of the endorser, destroys the endorser's remedy against prior party, endorser is discharged from liability to the holder to the same extent as if the instrument had been paid at maturity.

Consideration: If there is no consideration or consideration fails subsequently the liability of the drawer, endorser is not held. However, if any of the holders endorses it for consideration, such endorsee becomes holder in due course and liability of the parties becomes due to such endorsee.

Some other Important points related to Bill of exchange/Negotiable Instruments:

- ✓ A Cheque is also a Bill of Exchange where the drawee is always a Bank and is payable on demand.
- ✓ If in a Bill of Exchange or Promissory note, the Rate of Interest is not mentioned, it will be @ 18% p.a.
- ✓ **Stamping** is not required in case of Demand bills and usance bills up to 3 months (For genuine trade transactions where Bank is a party). For usance bills stamping should be done as per Indian Stamp Act.



- ✓ **Ambiguous instrument (Section 17)** is an instrument which is may be due to faulty drafting is drawn in such a manner that it can be treated as an B/E or Promissory Note.
- ✓ **Inchoate Instrument (Section 20)** is an instrument which is incomplete with respect to date, payee and amount. Holder of such instrument has right to complete it. An instrument without signature is not valid at all.

Difference between Promissory Note and Bill of Exchange:

Promissory Note	Bill of Exchange
Defined in Section 4 of NI Act	Defined in Section 5 of NI Act
Number of parties are Two	Number of parties are 3
Acceptance is not required	Acceptance by drawer is required

CHEQUES (Section – 6)

As per Section-6 of NI Act, Cheque is a Bill of Exchange, always payable on demand and the drawee is always a Bank. Apart from physical cheque, Electronic cheque and Electronic image of the cheque are also treated as valid instruments.

Parties to a Cheque are :

Drawer: The person who draws the cheque or the account holder.

Drawee: The Bank on whom the cheque is drawn or where the account is maintained.

Payee: The person named in the cheque or the beneficiary of the payment.

Features of Cheque:

Form of Cheque: No certain form of Cheque is given in the act. However RBI has prescribed formats and features as per CTS-2010 Cheque standards, which has been made mandatory w.e.f 01.01.2013. (Banks had been advised to issue only CTS-2010 standard cheques/DD by 31st December 2012).

MICR (Magnetic Ink Character Recognition) Cheque:

To facilitate MICR based Cheque Processing, instruments passing through clearing are required to be issued in standard format and defined size of 8" x 3 2/3".

MICR Cheques have three sets of numbers at lower band of the cheque.

Cheque Serial Number: First 6 digits represents cheque number.

City-Bank-Branch Number: The next 9-digit number convey meaning in three set of three digits. First set of three digits represents City Code, Next three digits represents Bank Code and last three digits represent Branch Code. Allotment of branch codes is by the President of the Clearing House of which the bank is a member; generally, the service branch of a bank is allotted the branch code of '001'.



Transaction code field comprising of two digits in all instruments except Government cheques drawn on RBI which have a 3-digit transaction code. Control documents – batch and block tickets - have a three-digit representation in the transaction code field.

The transaction code, running from 01-99, out of which, Codes 01- 49 are reserved for debit instruments and codes 50 - 99 for credit instruments.

Some Important Transaction Codes are:

- 01-09: Codes reserved for clearing house control documents representing debit instruments.
- 10: Savings Bank Account Cheque.
- 11: Current Account cheque.
- 12: Banker's cheque
- 13: Cash Credit Account Cheque
- 14: Dividend Warrant
- 16: Demand Draft
- 20: State Government Transactions
- 21: Central Government Transactions.
- 29: At Par Current Account Cheques (Multi City Current Account Cheques)
- 30: At Par Cash Credit Account Cheques (Multi City Cash Credit Account Cheques)
- 31. At Par Savings Account Cheques (Multi City Savings Account Cheques)
- 49: Income Tax Refund Orders.

Account number field, consisting of six digits followed by a delimiter, is an optional field. In the case of Government Cheques issued by RBI alone, the account number is of seven digits. The Government Account number is 10 digits in length – 7 digits occurring in the Account number field and three in the transaction code field.

Difference between Bill of Exchange and Cheque:

	Bill of Exchange	Cheque
I	Can't be drawn payable to bearer on demand	Can be done payable to bearer on demand
II	Can be a demand bill or usance bill	Is payable only on demand or after some time
III	Drawee can be any one	Drawee always is a Bank
IV	Provisions of Crossing Not Applicable	Cheques can be crossed
V	Usance bills need to be accepted	Cheques require no acceptance.

HOLDER OF A NEGOTIABLE INSTRUMENT (SECTION-8):

Holder of a negotiable instrument is a person who is entitled in his own name to the possession of the instrument and to receive the amount due thereon from the parties thereto. The holder is entitled to receive the amount due even when the instrument is lost, stolen or destroyed and is not in his possession provided that his name appears in the instrument as payee or endorsee and the endorsement is genuine. However, in case of a bearer cheque, a holder can receive the amount even without his name being mentioned in the instrument. This implies that mere possession of an instrument doesn't make a person



its holder. The holder should have the right or title to receive the amount mentioned in the instrument.

Rights of a holder: A holder can

- Obtain a duplicate of the lost instrument (Section 45A)
- Can cross the cheque, convert a general crossing to special crossing, endorse and negotiate.
- Can sue in his own name in relation to the instrument.
- Holder can complete an inchoate instrument.
- Can give proper discharge to the person making the payment.

Holders under different situations:

- In case of death of holder, his/her legal heirs become its holder irrespective of the person possessing the instrument.
- When the holder is insolvent, the official liquidator becomes the payee.

HOLDER IN DUE COURSE (SECTION-9):

A Holder will be called as holder in due course of a negotiable instrument if the following conditions are satisfied

- I. The instrument must be in his/her possession.
- II. Consideration: He should have got the instrument for adequate and lawful consideration and not by gift or without consideration.
- III. Before maturity: He should have become holder of the instrument before its maturity.
- IV. Good Faith: He should have become holder of the instrument without having sufficient cause to believe that any defect existed in the title of the person from whom he derived his title.

Once a person becomes a holder in due course, he can claim a better title than the person from whom it took the cheque. Claiming a better title can be made only by the holder in due course and none else. Getting a better title is essential characteristic of negotiability. So, there can't be a holder in due course in case of a cheque which bears a not negotiable crossing. Any person deriving his title through a forged endorsement or in case of a cheque drawn with forged signature can't claim himself as holder or holder in due course.

Difference between Holder and Holder in due course:

	Holder	Holder in due course
I	Defined in Section-8 of NI Act	Defined in Section-9 of NI Act
II	Consideration is not essential	Consideration is essential
III	Possession is not essential	Possession is essential
IV	Not mandatory to become holder before maturity	The holder should have become holder of the instrument before its maturity
V	In case the title is defective, the	He possesses better title than holder unless he



	holder continues to get defective title.	has any cause to believe that the title of the instrument is defective. Otherwise in case the title of prior party is defective, the holder in due course gets a better title.
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NEGOTIATION:

Negotiation means transferring an instrument from one person to another in such a manner as to convey title and to constitute the transferee the holder thereof. Delivery is important to complete negotiation. For instance, if a person endorses an instrument and dies without delivery to the endorsee, the negotiation remains incomplete and the legal heirs can't deliver the instrument for negotiation. However, the legal heirs can re-endorse and deliver.

A bearer instrument is negotiated by mere delivery and no endorsement is required. An Order instrument is can be negotiated by by endorsement followed by delivery.

ENDORSEMENT (SECTION-15):

Endorsement is done for the purpose of negotiation of a negotiable instrument by the maker/drawer or holder/payee of an instrument by signing on the face or backside of an instrument or on a slip of paper with stamping annexed to the instrument for the same purpose called 'Allonge'.

Instruments which can be endorsed: Cheque, Bill of Exchange and Promissory Note.

Number of Endorsements: There can be any number of endorsements on a negotiable instrument.

Endorsement by a Minor: A minor can endorse u/s 26 of NI Act but he will not be liable as an endorser.

Liability of Endorser: As per Section-35 of NI Act, liability of an endorser is similar to principal debtor.

The endorsee acquires a right to negotiate the instrument to anyone he likes and can sue all parties whose names appear on it. The endorser on the other hand, assumes the liability of a principal debtor till the instrument is paid.

Types of Endorsement:

Endorsement in Blank: In this case, endorser signs without adding any words or directions. If endorsed Blank, an order instrument becomes payable to bearer. Blank endorsement can be converted to endorsement in full by writing name of a person above the signature and it is lawful.

Endorsement in Full: Where an endorser signs and adds the name of the endorsee specifically it is called as endorsement in full.

Restrictive Endorsement: This type of endorsement restricts further right of negotiation. For example, in an endorsement it is written as pay to Ravi for my use. In this Ravi can't further endorse the instrument.



Facultative Endorsement: Where an endorser gives up his/her rights or increases his liability by writing express words that notice of dishonor is waived it is called as facultative endorsement. But this is not applicable to other parties of the instrument.

Sans Recourse Endorsement: In this type of endorsement, the endorser excludes his liability.

Sans Frais Endorsement: Where, the endorser states that he is not liable for incidental expenses, it is called a Sans Frais endorsement. The endorser is liable only for the amount payable on the instrument.

Conditional Endorsement: Endorsement which stipulates some conditions is called conditional endorsement. Example “ Pay to Rakesh when he goes to hospital”. In case of such type of endorsement, the condition is binding between endorser and endorsee only and the paying bank is not bound to verify the fulfilment of such condition.

Forged Endorsement: When endorsement made by a person other than the holder by forging the signature of the holder is called forged endorsement. In this case, the Title doesn't pass to any person and a person getting the instrument after such endorsement does not become the holder.

Partial Endorsement: When an endorser transfers only a part of the amount of the negotiable instrument to the endorsee, it is called partial endorsement. It is not a valid endorsement for the purpose of negotiation. But if the cheque/instrument is partly paid and the fact is mentioned on the instrument, it can be negotiated for the balance amount.

Back to Back Endorsement: In this case endorser himself becomes endorsee. In such case endorsee can recover the amount only from the parties prior to his own endorsement. For instance where a cheque is endorsed by B in favour of C and by C to D and by D to E and E endorses it in favour of C, then C reaches at the previous position when he had endorsed in favour of D. C can demand payment from B only and not from D and E.

Negotiation Back: In this case drawer of a cheque himself becomes endorsee and the cheque is treated as satisfied.

Liability of Endorser in case of a dishonored Cheque:

- Each endorser is liable to compensate the holder the loss caused to him due to dishonor of the cheque. The liability of an endorser is similar to that of drawer. The holder can recover the amount from the endorser, any one of the endorsers or drawer.
- The drawer of a cheque is liable to holder as principal debtor and all the endorsers are liable to him as sureties.
- In between endorsers, each endorser is liable as a principal debtor to his immediate endorsee and as surety to subsequent endorsees.



- An endorsee, who obtains an instrument without consideration, has no recourse to his immediate earlier endorser.
- Where a holder of a Negotiable Instrument, without the consent of the endorser destroys or impairs the endorser's remedy against a prior party, that endorser is discharged from liability to the holder.

Regularity of Endorsement (Protection to Paying Banker)

To consider an endorsement as regular, following conditions should be fulfilled.

- ✓ Payee or endorsee must sign the endorsement.
- ✓ Endorser should not sign in capital letters, otherwise it will be treated as endorsement by illiterate person and will require witness and will be considered as irregular endorsement.
- ✓ Spelling of the name of endorsee must be the same as appearing in the instrument.

As per NI Act, a paying bank gets protection provided that the endorsement is regular (which may or may not be genuine) u/s 85(I) in case of Order Cheques, U/s 85(II) in case of bearer cheques and U/s 85-A in case of Bank Draft. In case of bearer cheque, if the cheque is endorsed, Bank is not required to take note of any such endorsement. Once a bearer is always a bearer.

PAYMENT OF CHEQUES

Payment in due course (Section-10):

Bank is discharged of its liability if payment is made in due course which means: 1) Payment in accordance with the apparent tenor of the instrument (Payment should be made in accordance with the date, crossing, endorsement, name of payee, amount etc. as is apparent in the instrument) 2) In good faith and without negligence 3) To any person in possession thereof 4) Under circumstances which don't afford a reasonable ground to believe that the person receiving payment is not entitled to receive payment.

As per Section 31 of NI Act, It is statutory obligation of the Banker to honor the cheques of a customer provided there is sufficient balance and the cheque is otherwise in order. In case of wrongful dishonor, the Bank is liable to the for damages to the customer.

Writing a Cheque:

Cheque written in Different Ink: A cheque can be drawn in different Ink, Handwritings or scripts are valid and the cheque can be paid.

Language: A Cheque can be written in Hindi, English or any Regional language. Bank can return a cheque written in a language other than the language of that region.

Signature on Back of Cheque: When a cheque is presented for payment, signature of the presenter is taken on the back of the cheque as a witness of payment. If the presenter refuses to sign, the Bank can take receipt on a separate paper.

Date of Cheque:

Ante dated cheque: Cheque dated prior to its date of presentation. Ante dated cheque can be paid within 3 months from the date of issue.

Postdated cheque: A cheque with a future date to the date of presentation. It can be paid only on the date mentioned on it or within 3 months thereafter.

Stale Cheque: Cheque where three months have been passed from the date of cheque (Earlier it was 6 months and RBI reduced it to 3 months with effect from 01.04.2012). Drawer may further reduce the validity by writing on it. A stale cheque can be revalidated by the drawer any number of times. A cheque becomes stale as per RBI directives and NI act doesn't have any such directives. A stale cheque should not be paid unless revalidated by drawer.

Impossible Date: A cheque with impossible date like 31.06.2019 should be paid on the last date of month i.e 30.06.2019 or within 3 months of the last day of the month.

Cheque dated prior to account opening date: A cheque dated prior to date of opening of account or date of issue of cheque book can be paid if otherwise in order.

Cheque bearing dates as per National Saka calendar: Can be paid if otherwise in order.

Undated Cheque: A cheque bearing no date should be returned unpaid.

Amount of Cheque:

- Amount should be written in both figures (courtesy amount) and Words (Legal amount). As per Section 18 of NI Act, if amount written in words and figures differ, the amount written in words will be paid.
- If the amount is written only in words, the cheque can be paid. But if the amount is written only in figures, the cheque should be returned unpaid.
- If the balance in the account is just equal to the amount of the cheque, the cheque should be paid.
- If the balance in the account is insufficient to pay the cheque, it should not be paid taking the balance available in some other account unless there is an arrangement to this effect.
- If number of cheques are presented at the same time and the balance is not sufficient to pay all the cheques, then priority should be given to cheques favoring revenue authorities, then cheques favoring public authorities. Even after that, if some balance is left, maximum number of cheques should be passed, taking care that cheque of very small amount is passed.

Payee of the Cheque:

Payee is Minor: As per Section 26 of NI act, a minor may draw, endorse, deliver and negotiate any Negotiable Instrument so as to bind all parties except himself. So, a minor can be payee of a cheque.

Payee is Insolvent: Where the payee of a cheque is an insolvent, the cheque should not be paid, as the true owner of the cheque favouring an insolvent is the official receiver. However, if Bank has no knowledge about insolvency of payee and has paid the cheque in due course, it can't be held responsible.



Payee is a Company, Corporation or Govt. Department: In this case, the cheque (bearer or order) can't be paid in Cash. Such cheques should also not to be collected in third parties account.

Alternate Payees: A cheque can be drawn favouring alternate payees and can be paid to any one of them or order. For example, a cheque favouring A, B or C can be paid to any of them.

Impersonal Payee: Where a cheque is drawn in favour of impersonal payee like "Pay Lord Ram or Order", " Pay cash or order", "Pay wage or order" such cheques should be paid to drawer after getting his endorsement.

Payee name left blank: Where a cheque is drawn without payee name, the cheque should be returned with the remark, "Payee name required"

Drawer of the Cheque:

- Cheque drawn by a drawer when he is arrested/kept under trial/Imprisoned can be paid.
- Cheque can't be paid when a drawer adjudged insolvent or insane.
- Cheque can't be paid after death of drawer in case on individual accounts (Individual/HUF/Sole Proprietor).
- On receipt of Stop payment instruction from drawer, the cheque should not be paid.
- In case where drawers signature is forged, paying Banker has no right to debit the account and will be liable for wrongful debit to the customer's account. The onus of proving the fact that the signature is forged lies with the customer. The collecting Banker is protected under section 131 of NI Act. The paying Banker has to report to RBI/Police about the fraud.
- Bank is protected in paying a cheque where the customer is a party to forgery in customers signature and/or he was known about the forgery before payment. Bank is also protected if, on enquiry the customer confirms that the signature was his own and he is estopped from denying the signature later on (Doctrine of estoppel). Bank will also not liable for payment of a cheque where the cheque has been signed by the drawer himself but in a different fashion.
- If there is any mutilation of cheque (cheque which is torn into two or more pieces), it should be confirmed by the drawer. The usual wording of certification by drawer should be " Mutilation guaranteed"

Banking Hour: As per Section 65 of NI Act, payment of a cheque presented after Banking hours is not a payment in due course. Cheques should be presented for payment within Banking hours. Actual payment can be made after Banking Hours.

Bearer or Order: If it is written that a cheque is payable to bearer or order, it can be paid either to bearer or order. However, if neither bearer or order is written, it is payable to order. For example, if a cheque is drawn payable to RAM, it is payable to RAM or Order. Changing from Bearer to order is permissible. But changing a cheque from Order to bearer is treated as material alteration and require drawers' signature.

Material Alteration: Any alteration in a cheque, which makes a significant change in the mandate given by the drawer is called material alteration.

- ✓ Material alteration occurs when there is any change in date, amount or name of the payee in a cheque.
- ✓ Change from Order to bearer in a cheque is also a material alteration but not the vice-versa.
- ✓ Converting Special crossing to General crossing in a cheque is material alteration but not the vice-versa.
- ✓ Filling Blanks of an inchoate instrument or conversion of endorsement in blank to endorsement in full is not a material alteration.
- ✓ If there is any material alteration in a cheque, it can be paid only after confirmation from drawer. In case of joint account with mode of operation “either or survivor” any one of account holder can confirm the material alteration.
- ✓ Drawer should confirm the material alteration with full signature as per the specimen available.
- ✓ In case of image-based clearing by CTS, cheques with material alteration except change in date should not be accepted even with authentication by drawer.
- ✓ U/s 89 of NI Act, Paying Banker gets protection in case of payment of cheques where material alteration is not apparent at the time of payment and payment is made in due course.

Refusal for Payment of cheque: Bank may refuse to honour a cheque in spite of having sufficient balance in account and the cheque is otherwise in order under the following circumstances:

- The drawer countermands the payment.
- Death of drawer. Cheques signed by a person in the capacity of an agent can be paid even after his death as long as the principal is alive. On the other hand if the principal dies, the authority with agent also expires and the cheques signed by the agent should not be paid. Therefore, cheques signed by director of a company even after his death can be paid if otherwise in order.
- Insolvency or insanity of customer.
- Company in liquidation: Balance lying with Bank in case of Company in liquidation vests with the official liquidator.
- Assignment of credit balances in the account to another person.
- On receipt of garnishee order or income tax attachment order.

Other guidelines related to payment of Cheques:

- ✓ Instruments returned unpaid should have a signed objection slip with valid reason of refusal.
- ✓ As per earlier guidelines, when cheque with value of Rs.1.00 crore and above drawn in any account is dishonoured on four occasions during a financial year on account of insufficient balance, no fresh cheque books to be issued and Bank may also consider closing the account at its discretion. But now RBI advised Banks to make rules in this regard by individual Bank level with a board approved policy. Bank should also have

a board approved policy in dealing with frequent return of cheques with value less than Rs.1.00 crore.

- ✓ As per RBI guidelines, for prevention of fraud, all cheques beyond a threshold limit of Rs.2.00 Lakh should be examined under UV Lamp. Cheques above a threshold limit of Rs.5.00 Lakh to be subject to checking at multiple levels. Banks should send SMS alerts to drawer/payee when cheques received in clearing. Contacting customers and get their confirmation in case of payment of suspicious/ high value cheques.

Valid reasons to be mentioned in case of dishonour of cheques:

Circumstances	Reason to be mentioned in Cheque Returning Memo
Balance in deposit accounts not sufficient	Insufficient Funds
Available balance in CC/OD account is less than amount of cheque	Exceeds arrangement
When balance is attached by Garnishee order	Refer to drawer
Cheque lodged but yet to be realized	Effects not cleared
Non-CTS Cheques, presented in CTS Clearing	Present in Proper Zone

CROSSING:

Crossing is applicable only to Cheques and Drafts and not to other Negotiable Instruments like Bill of Exchange and Promissory Notes.

General Crossing (Section: 123):

- Where a cheque bears across its face two parallel transverse lines with or without an addition of any abbreviation thereof, between two parallel transverse lines, or either with or without the words “not negotiable” shall be deemed a General Crossing.
- As per Section 126 of NI Act, General Crossing is a direction to the paying Bank not to pay the cheque across the counter but to pay it through a Bank.

Special Crossing (Section:124):

- Where a cheque bears across its face an addition of the name of a banker, either with or without the words “not negotiable”, that addition shall be deemed a crossing and the cheque shall be deemed to be crossed specially, and to be crossed to that banker.
- Two parallel transverse lines across the face of the cheque is not essential in case of special crossing.
- In case of a cheque with special crossing, the paying bank has to make payment only to the Bank named in the crossing or his agent.
- When a cheque is crossed specially to more than one Bank (unless one Bank is acting as collecting agent of another Bank) should be returned unpaid. But a cheque crossed to two or more Branches of a same Bank to be treated as crossed to One Bank and should be paid.

Crossing after issue (Section 125):

- Where a cheque is uncrossed, the Drawer or holder may cross it generally or specially.
- Where a cheque is crossed generally, the holder may cross it specially.
- A general crossing can be converted to a special crossing by the drawer or any holder. However converting a special crossing into a general crossing will be treated as material alteration and to be authenticated by the drawer with his/her signature.
- Where a cheque is crossed generally, or specially, the holder may add the words “not negotiable”.
- Where a cheque is crossed specially, the banker to whom it is crossed may again cross it specially to another banker, his agent, for collection.

Cancellation of Crossing: Crossing can be cancelled only by the Drawer by adding the words, “ Crossing Cancelled” and with proper authentication.

Protection to paying Banker of a crossed Cheque (Section 128) : A paying Bank will get protected by paying a crossed cheque when payment is made in due course and in accordance to the crossing as per Section 128 of NI Act.

Payment of crossed cheque out of due course (Section 129) : Any banker paying a cheque crossed generally otherwise than to a banker, or a cheque crossed specially otherwise than to the banker to whom the same is crossed, or his agent for collection, being a banker, shall be liable to the true owner of the cheque for any loss he may sustain owing to the cheque having been so paid.

Not negotiable crossing (Section 130):

- A person taking a cheque crossed generally or specially, bearing in either case the words “not negotiable”, shall not have, and shall not be capable of giving, a better title to the cheque than that which the person from whom he took it had.
- The inclusion of the words “not negotiable” takes away the important character of negotiability though the instrument continues to be transferrable. Hence it doesn't restrict further transfers but the endorsees don't get a better title than the endorsers.
- The benefits of this crossing is that it protects the interest of drawer because if the cheque goes into wrong hands the person will not get better title and will not become holder in due course and can't demand money from the drawer without fulfilling the criteria of a holder in due course such as consideration etc.

Account Payee Crossing:

- This type of crossing is not defined in NI Act. It has developed by usage and practice.
- Essential feature of this type of crossing is the word “Account Payee” or “Account Payee Only”. Two parallel transverse lines may or may not be there.
- Account payee crossing is a direction to collecting bank to ensure that the amount is credited to the account of the person mentioned as payee. In case the bank fails to do so, it may render itself liable for conversion.
- RBI has permitted Banks for collecting third party account payee cheques for amount not exceeding Rs.50000/- for crediting to the Current Account of Cooperative credit societies /Banks on behalf of their members provided that the cheque bears an endorsement to



the effect that the latter will credit the proceeds of the cheque to the account of the payee of the cheque.

COLLECTION OF CHEQUES:

In case of collection of cheque on behalf of a customer the Bank acts as **Agent** when sending the cheque for collection and crediting the proceeds into customers account after realization of cheque **or holder for value** if the cheque is purchased and amount has been credited in the account of the customer before sending it for collection.

Duties of Bank as agent for collection of cheque:

- Duty to present the cheque without delay.
- Duty to give notice of dishonour to customer within time. Cheques sent for collection and returned unpaid should be returned to the payee within 24 hours of return.
- There should not be delay on part of a Banker in crediting the proceeds of a cheque to the account of a customer upon its realization.
- Cheque return charges shall be levied only in cases where the customer is fault.
- In case of return of cheques due to technical reasons, it should be represented without any recourse to the payee in the immediate next presentation clearing not later than 24 hours (excluding holidays) with notification to the customer.

Conversion: Conversion means wrongful interference in the property of another person. When a Bank collects a cheque paid in by his customer who has no title or defective Title can be held guilty of conversion and will be liable to the true owner of the cheque.

Non Liability of Collecting Banker (Section: 131 in case of Cheque and Section 131A in case of Drafts): A banker who has in good faith and without negligence received payment for a customer of a cheque crossed generally or specially to himself shall not, in case the title to the cheque proves defective, incur any liability to the true owner of the cheque by reason only of having received such payment.

It shall be the duty of the banker who receives payment based on an electronic image of a truncated cheque held with him, to verify the prima facie genuineness of the cheque to be truncated and any fraud, forgery or tampering apparent on the face of the instrument that can be verified with due diligence and ordinary care.

To get protection as a collecting Banker, there should not be any negligence on part of Bank. Examples of negligence are opening of account without KYC compliance, ignoring not negotiable or account payee crossing, collecting cheques payable to Company/Firm/Trust etc in the personal accounts of director, partner, trustee or office bearers etc. These are also treated as conversion.

Time frame for collection of cheques and other instruments sent for collection within the country:

- The cheques drawn on the Bank situated in the Grid Centre and the same are multicurrency cheques, the time norm is T +1 days.



- Credit arising out of local cheques shall be given to the customer's account as indicated in the Cheque Collection Policy (CCP) of the concerned collecting bank. Normally for local cheques, credits should be given on same day or next working day.
- Notwithstanding to the CCP of concerned collecting bank, ideally, in respect of local clearing, banks shall permit usage of the shadow credit afforded to the customers' accounts immediately after closure of the relative return clearing on the next working day or maximum within an hour of commencement of business on the third working day from the day of presentation in clearing, subject to usual safeguards.
- For out station cheques, time frame for collection of cheques drawn on State Capitals, Major cities and other locations is maximum 7, 10 and 14 days respectively.
- If there is any delay in credit, beyond the period specified above, customer is entitled to receive compensation at the rate specified in the CCP of the concerned collecting bank. In case, no rate is specified in the CCP, compensation at savings bank interest rate in case of local cheque collection and, interest rate on Fixed Deposits for the corresponding maturity in case of collection of outstation cheques has to be paid for the corresponding period of delay. No outstation cheque collection charges to be levied if the collecting bank and the paying bank are located within the jurisdiction of the same CTS grid even though they are located in different cities.

Charges for collection of cheque:

Local Cheque collection charges are decided by the concerned bank from time to time and communicated to customer through their Cheque Collection Policy as part of the Code of Bank's Commitment to Customers.

Banks cannot charge more than the following for outstation cheques: Up to and including Rs.5000 – Rs.25 per instrument + service tax; Above Rs.5000 and Up to and including Rs.10,000 – not exceeding Rs.50 per instrument+ service tax; Above Rs.10,000 and up to and including Rs.1, 00,000 – not exceeding Rs.100 per instrument + service tax; Rs.1, 00,001 and above – left to the banks to decide. No additional charges such as courier charges, out of pocket expenses, etc., should be levied.

Drop Box facility for deposit of cheques at Bank Branches: As per BCSBI guidelines, Bank may provide a drop box facility to enable you to deposit cheques to be sent for collection. However, the customer may, if so desire, hand over cheques at the counter against acknowledgement instead of depositing them in the drop box. This should be clearly displayed at the Drop Box itself.

DISHONOUR OF CHEQUES:

NI Act provides that in case a cheque is dishonoured, the payee can file criminal suit against the drawer. To deal with such offences, as per recommendation of Rajamanar Committee, the act was amended in 1988 to add Sections 138 to 142 which came into effect from 01.04.1989. The act was further amended with addition of Sections 143 to 147 and in 2018 to add section 148.

As per **Section 138 of NI Act** dishonour of cheque for insufficiency of funds in the account of the drawer where any cheque drawn by a person for consideration i.e for payment of any amount of money to another person for the discharge, in whole or in part, of any debt or other liability, is returned by the bank unpaid, either because of the amount of money standing to the credit of that account is insufficient to honour the cheque or that it exceeds the amount arranged to be paid from that account by an agreement made with that bank in case of Cash Credit / Over Draft, such person shall be deemed to have committed an criminal offence.

As per Supreme Court judgement, Cheques dishonoured on account of Stop Payment by the drawer or closure of the account will also attract penalty u/s 138 of NI Act.

Further as per **Section 139 of NI Act**, It shall be presumed, unless the contrary is proved, that the holder of a cheque received the cheque of the nature referred to in section 138 for consideration i.e for the discharge, in whole or in part, of any debt or other liability.

Provided that nothing contained in this section shall apply unless-

- a) The cheque has been presented to the bank within a period of six months from the date on which it is drawn or within the period of its validity, whichever is earlier.
- b) The cheque has been received for consideration as mentioned above.
- c) The payee or the holder in due course of the cheque, as the case may be, makes a demand for the payment of the said amount of money by giving a notice; in writing, to the drawer of the cheque, within thirty days of the receipt of information by him from the bank regarding the return of the cheque as unpaid
- d) The drawer of such cheque fails to make the payment of the said amount of money to the payee or, as the case may be, to the holder in due course of the cheque, within fifteen days of the receipt of the said notice, there arises a cause of action to file a criminal suit against the drawer.

Limitation Period and filing of suit : Suit can be filed within 1 month from the date of cause of action i.e after 15 days' time given in demand notice to make payment.

Jurisdiction of filing case: No court inferior to that of a Metropolitan Magistrate or a Judicial Magistrate of the first class shall try any offence punishable under section 138.

The offence under section 138 shall be filed only in a court within whose local jurisdiction the branch of the bank where the payee, maintains the account in case of cheques deposited for collection or the branch of the drawee bank where the drawer maintains the account is situated if the cheque is presented for payment by the payee, otherwise through an account.

Punishment: In case of the offence is proved, the drawer shall be punished with imprisonment for a term which may be extended to two years or with fine which may extend to twice the amount of the cheque, or with both.

Provided that in case of any conviction in summary trial, the punishment may be fine up to Rs.5000/- or imprisonment up to 1 year or both.

Offences by companies: If the person committing an offence under section 138 is a company, every person who, at the time the offence was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company (any director, manager, secretary or other officer of the company) , as well as the company, shall be deemed to be guilty (Section 141). Provided that nothing contained in this sub-section shall render any person liable to punishment if he proves that the offence was committed without his knowledge, or that he had exercised all due diligence to prevent the commission of such offence. Further a nominee director of a company shall not be liable for prosecution. Director in case of a partnership firm applies to partners of the firm.

Negotiable Instruments (amendment) act, 2018:

Insertion of new section 143A, Interim Compensation: Court trying an offence under section 138 may order the drawer of the cheque to pay interim compensation to the complainant not exceeding twenty per cent. of the amount of the cheque. The interim compensation shall be paid within sixty days from the date of the order. The court may grant an additional period of 30 days to pay the amount.

If the drawer of the cheque is acquitted, the Court shall direct the complainant to repay to the drawer the amount of interim compensation, with interest at the bank rate as published by the Reserve Bank of India, prevalent at the beginning of the relevant financial year, within sixty days from the date of the order which may be further extended by additional 30 days by the Court.

Insertion of new section 148: In an appeal by the drawer against conviction under section 138, the Appellate Court may order the appellant to deposit such sum which shall be a minimum of twenty per cent of the compensation awarded by the trial Court. Such amount shall be in addition to any interim compensation paid by the appellant under section 143A. The amount shall be paid within sixty days from the date of the order. The court may grant an additional period of 30 days. The Appellate Court may direct the release of the amount deposited by the appellant to the complainant at any time during the pendency of the appeal.

Provided that if the appellant is acquitted, the Court shall direct the complainant to repay to the appellant the amount so released, with interest at the bank rate as published by the Reserve Bank of India, prevalent at the beginning of the relevant financial year, within sixty days from the date of the order, or within such further period not exceeding thirty days as may be directed by the Court

DEMAND DRAFTS

Bank Draft is defined in Section 85(A) of NI Act, which is an order to pay money drawn by one office of a Bank upon another office of the same Bank for a sum of money payable to order on demand.

A Demand Draft is a bill of exchange and as per RBI guidelines its validity is 3 months from the date of the instrument.

Banker-Customer relationship in case of Bank Draft:

- Bank is Debtor and Customer is creditor as long as the Draft is not delivered to the payee.
- Bank as trustee and the payee is beneficiary once the Draft is delivered to the payee. Purchaser can't stop payment or cancel a Draft after he delivers it to the payee.

Issue of Bank Drafts:

- As per RBI guidelines, Banks have to issue DDs of Rs.20000/- and above with account payee crossing.
- As per RBI guidelines, DDs of Rs.50000/- and above not to be issued against cash and can be issued only through debit of the customer's account.
- Transparent self-adhesive tape to be pasted over the value written in figures.
- Maximum amount of Draft should not exceed Rs.9,99,999.99 (Should not exceed six digits excluding paise) as there is no provision to issue Drafts of Rs.10.00 Lacs and above.
- As per RBI directives on or after 15 September 2018, name of the purchaser of DD/Bankers cheque to be printed on the face of DD/BC etc by issuing Bank to prevent its possible misuse for money laundering.

Cancellation of Bank Draft:

- As long as the Draft is not delivered to the payee, the applicant can cancel the draft or issue a duplicate.
- Once the Draft is handed over to payee, it can't be cancelled at the request of the purchaser.
- The request for cancellation of a lost Draft by the purchaser should be accompanied by a letter from the beneficiary addressed to the DD issuing Branch that he has not received the said DD and that he would return the DD to the Bank if received by him. The beneficiary signature should be attested by the Bank where he maintains his account.

Issue and payment of Duplicate Draft:

- In case the DD is lost, Bank should issue duplicate DD within a fortnight from the receipt of request by the purchaser or beneficiary.
- In case duplicate DD is not issued by Bank within the stipulated period, Bank is required to pay interest for the period of delay at the rate applicable for Term deposits of corresponding maturities.
- Duplicate DDs up to Rs.5000/- to be issued without awaiting for non-payment advise from drawee Branch.



- Normally duplicate DD is issued at the request of the purchaser. However, where the purchaser is a government / PSU it may not be ready to execute indemnity in favour of Bank. In such cases, issuing Bank can issue duplicate at the request of beneficiary also. Otherwise, beneficiary have to produce indemnity bond.
- When a duplicate DD has been issued, the original should not be paid and returned with remarks, “ Duplicate since issued”
- In case both original and duplicate are presented for payment, Bank should pay the duplicate and return the original with remarks, “ DD reported lost and duplicate since issued and paid”

Revalidation of Draft: DD is valid for 3 months from its date of issue after which they become stale and should not be paid. However, in special case stale DD can be paid where payee is a government department and where the DD is not more than 3 Years old. The issuing Branch can revalidate the draft at the request of purchaser or payee within 3 years from its date of issue. A revalidated draft is valid for 3 months and a Draft can be revalidated only once.

Limitation period of Draft is 3 years from the date of issue.

CLEARING BY CHEQUE TRUNCATION SYSTEM (CTS)

Cheque Truncation: Truncation is the process of stopping the flow of the physical cheque issued by a drawer at some point by the presenting bank while en-routing to the paying bank branch. In its place an electronic image of the cheque is transmitted to the paying branch through the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc.

The NI Act defines a truncated cheque to mean “a cheque which is truncated during the course of a clearing cycle, either by the Clearing House or by the bank, whether paying or receiving payment, immediately on generation of an electronic image for transmission, substituting the further physical movement of the cheque in writing.

The Reserve Bank of India (RBI) constituted an industry Working Group on Cheque Truncation under the Chairmanship of its Executive Director, Dr. R.B. Barman, to inter-alia suggest an appropriate model for cheque truncation in India. The Working Group submitted its recommendations in July 2003, and suggested a presenting bank based truncation model.

CTS has been implemented initially in New Delhi, Chennai and Mumbai in the year 2008, 2011 and 2013 respectively and after migration of the entire cheque volume from MICR system to CTS, the traditional MICR-based cheque processing has been discontinued across the country.

As per RBI guidelines, Banks have to issue Only CTS 2010 Standard cheques. Drawee Banks will return Non CTS 2010 standard cheques presented in CTS clearing under reason code 37- Present in proper Zone. As per RBI Circular dated 22.06.2010, Banks may accept non CTS 2010 standard cheques under other clearing arrangements such as MICR clearing, non-MICR clearing, over the counter collection (for cash payment) or direct collection of cheques outside the Clearing House arrangement.

Image specifications in CTS:

CTS in India mandates the use of prescribed image specifications only. Images that do not meet the specifications are rejected. The solution encompasses Image Quality Assessment (IQA) at different levels. The presenting bank is required to perform the IQA during the capture itself. Further IQA is done at the gateway before onward transmission to clearing house. The images are captured with digital signatures of the presenting bank and thereafter transmitted to the paying banks through the Clearing House. Further, the paying banks, if not satisfied with the image quality or for any other reason, can demand for the physical instrument before making payment of the instrument.

*CTS in India use a combination of Gray Scale and Black & White images. There are three images of each cheques that need to be taken - **front Gray Scale, front Black & White and back Black & White.***



Prescription relating to alterations / corrections on cheque forms IN CTS: No changes / corrections can be carried out on the cheques (other than for date). This would help banks in identifying and controlling fraudulent alterations. This prohibition is applicable to cheques cleared under the image based Cheque Truncation System (CTS) only. It is not applicable to cheques cleared under physical exchange of instruments.

Request for physical cheque by customer: Under CTS the physical cheques are retained at the presenting bank and do not move to the paying banks. In case a customer desires, banks can provide images of cheques duly certified/authenticated. In case, however, a customer desires to see / get the physical cheque, it would need to be sourced from the presenting bank, for which a request has to be made to his/her bank. An element of cost / charge may also be involved for the purpose. To meet legal requirements, the presenting banks which truncate the cheques need to preserve the physical instruments for a period of 10 years.

Benefits of CTS:

- Physical movement of instruments is stopped. The electronic movement of images can facilitate reduction in the clearing cycles and there is no fear of loss of instruments in transit.
- Under grid-based Cheque Truncation System clearing, all cheques drawn on bank branches falling within in the grid jurisdiction are treated and cleared as local cheques. No outstation cheque collection charges/Speed Clearing charges to be levied if the collecting bank and the paying bank are located within the jurisdiction of the same CTS grid even though they are located in different cities.
- Enhanced Operational efficiency for banks and customers.
- Grid based CTS provides significant cost savings to Banks.
- Elimination of clearing differences and reconciliation issues etc.

Grid Based approach on CTS implementation in the country:

RBI mandated National Payments Corporation of India (NPCI) to operationalise the Grid-based Cheque Truncation System. Under this approach the entire cheque volume in the country which was earlier cleared through 66 MICR Cheque Processing locations is consolidated into the three grids in New Delhi, Chennai and Mumbai. Each grid provides processing and clearing services to all the banks under its respective jurisdiction.

New Delhi Grid: National Capital Region of New Delhi, Haryana, Punjab, Uttar Pradesh, Uttarakhand, Bihar, Jharkhand, Rajasthan and the Union Territory of Chandigarh.

Mumbai Grid: Maharashtra, Goa, Gujarat, Madhya Pradesh and Chattisgarh.

Chennai Grid: Andhra Pradesh, Telangana, Karnataka, Kerala, Tamilnadu, Odisha, West Bengal, Assam and the Union Territory of Puducherry.

Under grid-based Cheque Truncation System clearing, all cheques drawn on bank branches falling within in the grid jurisdiction are treated and cleared as local cheques. Cheque

collection charges including Speed Clearing Charges should not be levied if the collecting bank and the paying bank are located within the jurisdiction of the same CTS grid even though they are located in different cities.

Process flow in CTS:

In CTS, the presenting bank (or its branch) captures the data (on the MICR band) and the images of a cheque using their Capture System (comprising of a scanner, core banking or other application) meeting the specified standard for data and images.

To ensure security, safety and non-repudiation of data / images, end-to-end Public Key Infrastructure (PKI) has been implemented in CTS. As part of the requirement, the collecting bank (presenting bank) sends the data and captured images duly signed digitally and encrypted to the central processing location (Clearing House) for onward transmission to the paying bank (destination or drawee bank). For the purpose of participation, the presenting and paying banks are provided with an interface / gateway called the Clearing House Interface (CHI) that enables them to connect and transmit data and images in a secure and safe manner to the Clearing House (CH).

The Clearing House processes the data, arrives at the settlement figure and routes the images and requisite data to the paying banks. This is called the presentation clearing. The paying banks through their CHIs receive the images and data from the Clearing House for payment processing.

The paying bank's CHIs also generates the return file for unpaid instruments, if any. The return file / data sent by the paying banks are processed by the Clearing House in the return clearing session in the same way as presentation clearing and return data is provided to the presenting banks for processing.

The clearing cycle is treated as complete once the presentation clearing and the associated return clearing sessions are successfully processed.

Paper to Follow (P2F)

Banks would be required to send physical instruments (paper) along with the scanned images in the following situations:

- a) Government Cheques
- b) IQA Failure (Instruments that fail IQA test may be rescanned. Instruments (images) which do not pass the IQA test need to be handled through "Paper to Follow" model, with IQA indicator flag 'off')
- c) When the instrument has been returned by the drawee bank with reason code 39 (Image not clear, present again with paper) or reason code 40 (Present with document)

The physical instruments, along with separate bank-wise lists generated from CHI, should be dropped in the respective drawee banks' receptacles at the clearing house, Banks can



exchange the P2F type of clearing instruments at Clearing House during pre-determined time slot agreed upon by the member banks. Under the Grid scenario the presenting bank and the drawee bank should be in the same city for exchange of P2F.

A record of instruments transmitted with 'paper to follow' flag shall be maintained by both the banks, in order to have appropriate control over the movement of paper instruments. As per the provisions of the NI Act, the drawee bank shall retain and preserve the physical instrument after making the payment thereof.

Discontinuation of the requirement of Paper to Follow (P2F) in case of Govt. Cheques:

P2F has been discontinued for Central Government cheques with effect from February 2016. Taking this initiative forward, RBI vide its circular dated 20.06.2019 advised to dispense with P2F for the State Government departments/treasuries. The government cheques would henceforth be paid in CTS clearing solely based on their electronic images. The paid cheques in physical form would be retained by the presenting bank.

In case any drawee bank desires to verify the government cheque in physical form before passing it for payment, the image would be returned unpaid under the reason "present with document". The presenting bank on such instances shall ensure that the instrument is presented again in the next applicable clearing session without any reference to the account holder (payee).

The presenting banks are required to preserve the physical instruments in their custody securely for a period of 10 years. Drawee banks shall make necessary arrangements to preserve the images of all government cheques for a period of 10 years with themselves or through the National Archival System put in place by National Payments Corporation of India (NPCI).

The government cheques paid by a drawee bank across its counter by way of cash withdrawal or transfer also need to be truncated and preserved for 10 years.

Dispute Resolution Mechanism:

- Panel for Resolution of Disputes" (PRD) consisting of five members to be formed by each Grid chaired by the President of the Clearing House to look into all the clearing-related disputes.
- The PRD shall dispose of the dispute within 15 working days of submitting the dispute.
- If any of the aggrieved parties to the dispute are not satisfied with the decision of the PRD, the dispute shall be referred to the Appellate Authority at the Reserve Bank of India who shall be the Officer-in-Charge of the Department of Payment and Settlement Systems at the Central Office of the Reserve Bank of India. The Appellate Authority shall dispose of the appeal within 15 working days of submitting the appeal.
- In case of disputes where the Reserve Bank of India is an involved party (either as a system participant or as a system provider), the dispute shall be referred to the Central Government which will authorise an officer not below the rank of Joint Secretary for settlement of the dispute and the decision of such officer shall be final and binding on all parties.



National Automated Clearing House (NACH)

The National Payments Corporation of India (NPCI) has implemented an electronic payment service termed as “National Automated Clearing House (NACH)” for banks, financial institutions, Corporates and Government Departments. NACH has both Debit and Credit variants. NACH (Debit) & NACH (Credit) aims at facilitating interbank, high volume, debit/credit transactions, which are bulk and repetitive in nature.

NACH Debit:

- NACH Debit is the product of NPCI to provide a better & efficient Mandate based debit services to the banks.
- Through this service, Banks can pool funds from large number of persons from different Banks. For this, mandate of customer is essential.
- Each mandate needs to be accepted/authorized by the debtor bank before the User can initiate a transaction.
- Each mandate is uniquely identified by Unique Mandate Reference Number (UMRN) which makes tracking of multiple mandate details easier for customers.

NACH Credit:

- NACH Credit is an electronic payment service used by an institution for affording credits to a large number of beneficiaries in their bank accounts for the payment of dividend, interest, salary, pension etc. by raising a single debit to the bank account of the user institution.
- NPCI offers 2 variants of NACH Credit. One variant is available in 156 character file format (similar to NECS file format) and the other variant is available in 306 file format.
- NPCI facilitates the participation of Corporates on NACH Credit through the Direct Corporate Access (DCA) module with sponsor bank’s control.

NACH does not work on all days. NACH Credit remains close on Sundays and RTGS holidays declared by Reserve Bank of India from time to time.

PAYMENT & SETTLEMENT SYSTEM ACT 2007

The Payment and Settlement Systems Act 2007, set up by the RBI, provides for the regulation and supervision of payment systems in India and designates the apex institution (RBI) as the authority for that purpose and all related matters. To exercise its powers and perform its functions and discharge its duties, the RBI is authorized under the Act to constitute a committee of its central board, which is known as the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS). The Act also provides the legal basis for 'netting' and 'settlement finality'. The ACT came into force with effect from 12th August 2008.

The Section 2(1) (i) of the PSS Act 2007 defines that a payment system enables payment to be effected between a payer and a beneficiary, involving clearing, payment or settlement service or all of them, but does not include a stock exchange. It is further stated a 'payment system' includes the systems enabling credit card operations, debit card operations, smart card operations, money transfer operations or similar operations.

Regulations made under the PSS Act, 2007: Under the PSS Act, 2007, two Regulations have been made by the Reserve Bank of India, namely, the Board for Regulation and Supervision of Payment and Settlement Systems Regulations, 2008 and the Payment and Settlement Systems Regulations, 2008.

Licensing to entities operating a payment system or intending to operate a payment system: In terms of Section 4 of the PSS Act, 2007 no person other than the Reserve Bank can operate or commence a payment system unless authorized by the Reserve Bank. Any person desirous of commencing or operating a payment system needs to apply for authorization under the PSS Act, 2007(Section 5). A sum of Rs 10,000/- is required to be submitted as application fee.

The PSS Act 2007 does not prohibit foreign entities from operating a payment system in India and the Act does not discriminate/differentiate between foreign entities and domestic entities.

Financial Market Infrastructures (FMI): Financial Market Infrastructure (FMI) is defined as a multilateral system among participating institutions, including the operator of the system, used for the purposes of clearing, settling, or recording payments, securities, derivatives, or other financial transactions.

Directions by Reserve Bank to the system providers: The Reserve Bank is authorized to issue directions to a payment system or system participant to cease or desist from engaging in any act, omission or course of conduct or direct it to perform any acts as well as issue general directions in the interests of the smooth operation of the payment system as per Section 17 and 18 of the PSS Act, 2007.

Dishonor of electronic fund transfer under the PSS Act, 2007

Under the PSS Act, 2007, dishonour of an electronic fund transfer instruction due to insufficiency of funds in the account etc., is an offence punishable with imprisonment or with fine or both, similar to the dishonour of a cheque under the Negotiable Instruments Act 1881. Subject to complying with the procedures laid down under the PSS Act, 2007, criminal prosecution of defaulter can be initiated in such cases. This provision was introduced to discourage dishonour of electronic payment instructions. (Section 25 of the Act)

As per Section 25(1) of Payment & Settlement Systems act 2007, Where an electronic funds transfer initiated by a person from an account maintained by him cannot be executed on the ground that the amount of money standing to the credit of that account is insufficient to honour the transfer instruction or that it exceeds the amount arranged to be paid from that account by an agreement made with a bank, such person shall be deemed to have committed an offence and shall, be punished with imprisonment for a term which may be extended to two years, or with fine which may extend to twice the amount of the electronic funds transfer, or with both: Provided that nothing contained in this section shall apply unless:

- The electronic funds transfer was initiated for payment of any amount of money to another person for the discharge, in whole or in part, of any debt on other liability.
- The electronic funds transfer was initiated in accordance with the relevant procedural guidelines issued by the system provider.
- The beneficiary makes a demand for the payment of the said amount of money by giving a notice in writing to the person initiating the electronic funds transfer within thirty days of the receipt of information by him from the bank concerned regarding the dishonour of the electronic funds transfer; and
- The person initiating the electronic funds transfer fails to make the payment of the said money to the beneficiary within fifteen days of the receipt of the said notice.

CHECK YOUR PROGRESS

1. How many Sections are there in NI Act? **(Ans.148)**
2. Which Section of Negotiable Instrument Act define Bill of Exchange? **(Ans. Section-5)**
3. Which Section of Negotiable Instrument Act define Promissory Note? **(Ans. Section-4)**
4. Which Section of Negotiable Instrument Act define Cheque? **(Ans. Section-6)**
5. Which Section of NI Act deals with Holder in due course? **(Ans. Section-9)**
6. Which Section of NI Act deals with Payment in due course? **(Ans. Section-10)**
7. Which Section of NI Act describes the meaning of Negotiable Instrument? **(Ans. Section-13)**
8. Endorsement is defined in which section of NI Act? **(Ans. Section-15)**
9. As per Section 18 of NI Act, if amount in Words and figures if differs, which amount should be paid? **(Ans. Amount in words should be paid)**
10. Inchoate instruments are defined in which section of NI Act? **(Ans. Section-20)**
11. Public holidays are declared under which section of NI Act? **(Ans. Section-25)**
12. Capacity of minor to Draw / Endorse Negotiable Instruments as per which section of NI Act? **(Ans. Section-26)**
13. Obligation of paying Banker to make payment of genuine instruments is defined under which section of NI Act? **(Ans. Section-31)**
14. Which Section of NI Act provides protection to Paying Banker against forged endorsement in Order Cheques and bearer cheques respectively? **(Ans. Section-85(1) and 85(2) respectively)**
15. Which Section of NI Act provides protection to Paying Banker against forged endorsement in case of Demand Drafts? **(Ans. Section-85(A))**
16. Protection to Paying Banker against material alteration in a cheque is available as per which Section of NI Act? **(Ans. Section-89)**
17. Protection to Collecting Banker is available as per which section of NI Act? **(Ans. Section-131)**
18. Conviction against dishonor of a cheque due to insufficiency of funds is dealt vide which section of NI Act? **(Ans. Section-138)**
19. Person to whom the amount mentioned in a promissory note is payable is called? **(Ans. Promisee / Payee)**
20. Promissory Note/ Bill of Exchange payable after a certain period of time is called as____ **(Ans. Usance Promissory Note / Usance Bill of Exchange)**
21. Number of parties to a Promissory Note and Bill of Exchange are? **(Ans. 2 & 3 respectively)**
22. Bill of Exchange payable on demand is also called? **(Ans. Sight Bill)**
23. Bill of Exchange payable on some future date is called____ **(Ans. Usance Bill)**
24. After receipt of accepted copy of foreign bill which was sent in more than one copy, the other copies which stands cancelled are called as ____ **(Ans. VIA)**
25. Bill which is not accompanied by any document of Title to Goods is called? (Ans. Clean Bill)
26. What is documentary Bill of Exchange? **(Ans. Bill accompanied by document of Title to Goods like Railway receipt, bill of lading etc.)**
27. Bill issued without consideration is called? **(Ans. Accommodation Bill)**
28. Dealing with accommodation bills are termed as? **(Ans. Kite Flying)**

29. Bill of exchange drawn in vernacular language as per the local use are called ? **(Ans. HUNDI)**
30. A Hundi which has been paid up and cancelled is called? **(Ans. Khokha)**
31. How many days of Grace period is allowed following Section 22 of NI Act in case of usance B/E or Promissory Note while calculating due date? **(Ans. 3 days)**
32. Which bills are generally drawn in more than one parts? **(Ans. Foreign Bills)**
33. Certificate issued by a Notary Public containing the facts of dishonor upon its noting is called____ **(Ans. Protest)**
34. In case of Rate of interest not mentioned in a Bill of Exchange or Promissory Note, it should be____ **(Ans. 18% p.a)**
35. Holidays under NI Act are declared by ____ **(Ans. Central Govt.)**
36. First, Second and third sets of three digits in the none digit number next to Cheque serial number of MICR cheque form represents____ **(Ans. City, Bank and Branch respectively)**
37. Transaction code of multi city / at par Savings account cheque is____ **(Ans. 31)**
38. Transaction code of multi city / at par Cash Credit account cheque is____ **(Ans. 30)**
39. Transaction code of multi city / at par Current account cheque is____ **(Ans. 29)**
40. Who can claim a better title than a holder of a cheque? **(Ans. Holder in due course)**
41. What is the effect of blank endorsement of an order cheque? **(Ans. It makes like a bearer cheque)**
42. Type of endorsement where the endorser excludes his liability is called____ **(Ans. Sans Recourse Endorsement)**
43. Type of endorsement, where, the endorser states that he is not liable for incidental expenses, is called as____ **(Ans. Sans Frais Endorsement)**
44. Type of endorsement where endorser himself becomes endorsee is called____ **(Ans. Back to Back Endorsement)**
45. Ante dated cheque can be paid within what period from the date of issue. **(Ans. 3 months)**
46. A cheque with impossible date should be paid on____ **(Ans. Last date of the month or 3 months within last date of the month)**
47. If in a cheque, if it is written that a cheque is payable to bearer or order, it can be paid to ____ **(Ans. Either to bearer or order)**
48. In a cheque, if neither bearer nor order is written, it is payable to____ **(Ans. Order).**
49. As per RBI guidelines, for prevention of fraud, all cheques beyond a threshold limit of Rs._____ should be examined under UV Lamp **(Ans. Rs.2.00 Lacs)**
50. As per RBI guidelines, for prevention of fraud, all cheques above a threshold limit of Rs._____ should be subject to checking at multiple levels. **(Rs.5.00 Lakh)**
51. Presence of two parallel transverse lines on the face of cheque is essential in case of which type of crossing? **(Ans. General Crossing)**
52. Protection to paying Banker in case of a crossed cheque is available u/s_____ of NI Act **(Ans. Section -128)**
53. Within what time period, cheques sent for collection and returned unpaid should be returned to the payee? **(Ans. within 24 hours of return)**
54. For out station cheques, what is the time frame for collection of cheques drawn on State Capitals, Major cities and other locations? **(Ans. Maximum 7, 10 and 14 days respectively)**

55. What is the limitation Period and filing of suit u/s 138 of NI Act? **(Ans. Within 1 month from the date of cause of action i.e after 15 days' time given in demand notice to make payment.)**
56. Maximum punishments for offences u/s 138 of NI Act can be_____ **(Ans. Imprisonment for a term which may be extended to two years or with fine which may extend to twice the amount of the cheque, or with both.)**
57. As per Section 143A of NI Act, court trying an offence under section 138 may order the drawer of the cheque to pay interim compensation to the complainant at what percent of the amount of cheque? **(Ans. Not exceeding 20% of the amount of cheque)**
58. Banks have to issue DDs of Rs_____with account payee crossing **(Ans. Rs.20000/- and above)**
59. As per RBI guidelines, DDs of Rs_____not to be issued against cash and can be issued only through debit of the customer's account. **(Ans. Rs.50000/- and above)**
60. Time period within which a Bank should issue duplicate DD from the receipt of request by the purchaser or beneficiary is___ **(Ans. within a fortnight)**
61. To meet legal requirements, for how long the presenting banks which truncate the cheques need to preserve the physical instruments? **(Ans. For a period of 10 years)**
62. What is the full form of P2F, the term used in CTS Clearing ? **(Ans. Paper to Follow)**

MULTIPLE CHOICE TYPE QUESTIONS

1. Which of the following is not a Negotiable Instrument as per NI Act?
- Bill of Exchange
 - Railway Receipt**
 - Promissory Note
 - None of the above
2. Which of the following is not a quasi negotiable instrument?
- Railway Receipt
 - Bill of lading
 - Warehouse Receipt
 - Airway Bill**
3. Which act, prohibits issuance of Demand Promissory Notes payable to bearer by anybody except RBI and Govt. Of India?
- Section 31 of RBI Act**
 - Section 35 of Banking Regulation Act
 - Section 31 of NI Act
 - None of the above
4. Under Section 31 of RBI Act, no person other than RBI/Govt of India can issue the following payable to bearer
- Promissory Note
 - Demand Bill of Exchange
 - Hundi
 - All of above**
5. Which of the following is a Negotiable Instrument?
- Letter of Credit

- b) Airway Bill
 - c) Currency Note
 - d) None of these**
6. A Promissory Note or Bill of exchange where no time for payment is specified is payable on
- a) At the discretion of Promisor/Drawer
 - b) After 5 Banking days
 - c) On demand**
 - d) After 21 days from the date of the instrument
7. Which of the following is not a Negotiable Instrument by Statute?
- a) Cheque
 - b) Hundi**
 - c) Bill of Exchange
 - d) All of above
8. In case of Writing a Bill of Exchange, the person who owes the money and is directed to pay i.e the debtor or buyer of goods becomes _____
- a) Drawer
 - b) Drawee**
 - c) Payee
 - d) Drawee in case of need
9. Which of the following is not an inland bill?
- a) Bill Drawn in India and payable in India but by a person not resident of India
 - b) Bill drawn in India and payable in India
 - c) Bill Drawn outside India but payable in India by a resident Indian.**
 - d) Bill drawn in India and payable outside India by a person resident of India.
10. Which of the following is not a foreign bill?
- a) A bill drawn in India and payable outside India or drawn on a person residing outside India and is payable outside India
 - b) A bill drawn in India and payable outside India by a person resident of India**
 - c) A bill drawn in India but payable outside India by a person not an Indian resident
 - d) A bill drawn outside India but payable in India or drawn outside India on a person residing outside India but payable in India.
11. How much time is allowed to the drawee/acceptor of usance bill of exchange for acceptance?
- a) 48 hours excluding public holidays**
 - b) 48 hours
 - c) 24 hours
 - d) 24 hours excluding public holidays
12. If a Bill or Promissory Note matures for payment on Public Holiday declared under section 25 of NI Act, it becomes payable on ____
- a) Next Succeeding Business day
 - b) Next preceding day
 - c) Next preceding business day.**
 - d) None of the above
13. A Bill dated 21.12.2010 payable one month after sight is presented for acceptance on 21.12.2010 and accepted on 23.12.2010. Calculate the due date of the bill
- a) 25.01.2011**

- b) 26.01.2011
 - c) 24.01.2011
 - d) 20.01.2011
14. A bill dated 30.12.2018 payable two months after date will be due for payment on:
- a) 28.02.2019
 - b) 03.03.2019**
 - c) 04.03.2019
 - d) None of the above
15. A promissory Note made by B is endorsed in favour of C and then in favour of D. Who will be the principal debtor if it is dishonored who will be the principal debtor?
- a) B**
 - b) C
 - c) D
 - d) All of them
16. As per Section 22 of NI Act, days of grace are allowed in case of ____
- a) Demand Drafts
 - b) Cheques
 - c) Usance bills
 - d) Usance promissory notes
 - e) Both C & D**
17. Noting of a Promissory Note is done by
- a) First class magistrate
 - b) Holder
 - c) Notary Public**
 - d) Any of above
18. Who will be the principal debtor of a Promissory Note?
- a) Promisor**
 - b) Promisee
 - c) Acceptor for honor
 - d) All of the above
19. Person liable as a principal debtor on a bill of exchange which has not yet been accepted is:
- a) Drawee
 - b) Payee
 - c) Drawer**
 - d) All of the above
20. Person liable as a principal debtor on a bill of exchange after acceptance is:
- a) Drawer
 - b) Acceptor**
 - c) Payee
 - d) Drawee in case of need
21. P draws a bill on Q payable to R or order who endorses it to S. It is dishonored due to non-payment. S can recover the amount from:
- a) P, Q and R**
 - b) P & Q Only
 - c) Q Only
 - d) R only

22. A draws a bill on B payable to C or order. C endorses it in Blank and delivers to D and D writes "Pay to E or order" over blank endorsement of C and delivers to E. The bill is dishonored due to non-acceptance. E can recover the amount from:
- a) A, B, C and D
 - b) A & C Only**
 - c) D only
 - d) A, B and C
23. An instrument with following fields left Blank may be treated as inchoate instrument
- a) Date
 - b) Name of payee
 - c) Amount
 - d) Signature
 - e) A, B and C**
24. Following conditions are essential to be a holder of a Negotiable Instrument
- a) There should be consideration for the amount of instrument
 - b) The instrument must be in his possession
 - c) He should have become holder before maturity
 - d) Person who is entitled in his own name to the possession of the instrument and to receive the amount due thereon from the parties thereto.**
25. The Holder in due course in case of an order instrument should be
- a) Should be payee or endorsee of the instrument
 - b) Instrument must be regular and complete in all respects
 - c) Instrument must have been received for valuable consideration
 - d) All of the above**
26. A cheque given to a Temple as donation. The Temple Trust in this case will become
- a) Holder**
 - b) Drawee
 - c) Holder in due course
 - d) None of the above
27. Essential actions for negotiation are:
- a) Endorsement
 - b) Delivery
 - c) Both a & b**
 - d) None of the above
28. If a person endorses an instrument and dies without delivery to the endorsee, how the legal heirs can complete the negotiation of the instrument?
- a) Legal heirs can deliver the instrument and complete negotiation.
 - b) The legal heirs can re-endorse and deliver for negotiation.**
 - c) The instrument becomes invalid
 - d) None of the above
29. As per Section 26 of NI act regarding endorsement of a Negotiable Instrument, A minor can____
- a) Can Endorse and instrument and become liable.
 - b) Can endorse an instrument but can't be liable to the parties thereto**
 - c) Minor can't endorse a Negotiable Instrument
 - d) All of the above
30. Which of the following documents can't be endorsed?

- a) Cheque
 - b) Demand Draft**
 - c) Fixed Deposit Receipt
 - d) Bill of exchange
31. If in an endorsement it is written as pay to Rakesh for my use. Such type of endorsement can be termed as____
- a) Conditional Endorsement
 - b) Restrictive endorsement**
 - c) Sans-Recourse Endorsement
 - d) None of the above
32. When an endorser during endorsement waives the requirement of notice in case of dishonour of the instrument, such kind of endorsement is called____
- a) Conditional Endorsement
 - b) Sans Recourse endorsement
 - c) Endorsement in full
 - d) Facultative endorsement**
33. Payment in due course should follow which of the following procedures
- a) Payment in accordance with the apparent tenor of the instrument.
 - b) In good faith and without negligence
 - c) To any person in possession thereof
 - d) Without any doubt that the person receiving payment is not entitled to receive payment.
 - e) All of the above**
34. Which of the following cheques should not be paid
- a) Cheque bearing dates as per National Saka calendar
 - b) A cheque dated prior to date of opening of account.
 - c) A cheque can be drawn in different Ink, Handwritings or scripts
 - d) None of the above options**
35. 5 cheques received in clearing in a customer's account having Balance Rs.1,50,000. One Cheque amounting Rs.85000/- favoring Income Tax Department, another cheque of Rs. 45000/- favouring District Collector, Rs. 50,000/- favouring Ram, Rs. 10,000/- favouring Shayam and Rs.8000/- favouring Ali. In such situation which cheques should be passed and which cheques to be returned?
- a) Pass the cheque amounting Rs.85000/-, Rs.45000/-, Rs.10000/- and Rs.8000/- and return the cheque amounting Rs.50000/-**
 - b) Pass the cheque amounting Rs.50000/-, Rs.45,000/-, Rs.10000/- and Rs.8000/- and return the cheque amounting Rs.85000/-
 - c) Pass the cheque amounting Rs.85000/-, Rs.50000/-, and Rs.10000/- and return the cheque amounting Rs.8000/-
36. Payment of Cheque favouring whom of the following can be paid to the holder?
- a) Minor**
 - b) Insolvent
 - c) Both a 7 b
 - d) None of the above
37. Cheque drawn by whom can be paid
- a) Cheque drawn by a person declared insolvent or insane
 - b) Cheque drawn by a drawer when he is arrested/kept under trial/Imprisoned**

- c) Cheque drawn by director of a company after his death.
d) None of the above.
38. Bank is liable for wrongful payment of a cheque in which of the following cases
a) Cheque amount paid after death of drawer in case on individual accounts.
b) Payment of a forged cheque where the customer is a party to the forgery.
c) Cheque drawn in favour of a company is paid to directors individual account.
d) Payment of cheque where stop payment instructions received from drawer.
39. Which of the following may not be treated as a material alteration of a cheque
a) Converting General crossing to special crossing
b) Converting Order cheque into bearer.
c) Converting bearer cheque into order.
d) All of the above.
40. Which of the following is not a requirement of special crossing
a) Cheque bears across its face an addition of the name of a banker.
b) There must be two parallel transverse lines across the face of the cheque.
c) With or without the words "not negotiable"
d) None of the above.
41. Any banker paying a cheque violating the directions of crossing, shall be liable to _____ for any loss he may sustain owing to the cheque having been so paid.
a) Drawer of cheque
b) Endorser of cheque
c) True owner of the cheque
d) Any of the above
42. Which of the following is correct with respect to Not Negotiable crossing
a) The instrument continues to be transferrable.
b) Endorsee gets a better title than the endorser.
c) Transferability of the instrument gets restricted.
d) None of the above options are correct.
43. Banks are permitted for collection of third party account payee cheques on behalf of the members of cooperative credit societies for an amount not exceeding Rs. _____
a) Rs.1,00,000.00
b) Rs.50,000.00
c) Rs.25,000.00
d) Rs.5,00,000.00
44. In case of return of cheques due to technical reasons, it should be again represented within ____
a) In the immediate next presentation clearing not later than 24 hours (excluding holidays)
b) In the immediate next presentation clearing not later than 48 hours
c) After getting consent from the customer/payee
d) Customer should be asked to present another cheque and destroy the returned cheque.
45. Which of the following conditions should be satisfied for taking action u/s 138 of NI Act for dishonor of cheque
a) The cheque has been presented to the bank within the period of its validity.
b) The cheque has been received for consideration



- c) The payee makes a demand to drawer for the payment by giving a notice to the drawer of the cheque, within thirty days of the receipt of return memo from the bank.
 - d) The drawer fails to make the payment to the payee, within fifteen days of the receipt of the said notice.
 - e) All of the above.**
46. As per new section 148 of NI Act, in case of an appeal by the drawer against conviction under section 138 by the lower court, the Appellate Court may order the appellant to deposit such minimum sum equal to _____
- a) Twenty per cent of the compensation awarded by the trial Court in addition to any interim compensation paid by the appellant under section 143A as directed by lower court.**
 - b) Twenty percent of the amount of cheque
 - c) Twenty percent of the amount of cheque less the amount already paid as per direction of lower court u/s 143A of NI Act.
 - d) None of the above.
47. In case where Bank has issued duplicate DD and both original and duplicate are presented for payment what should Bank do in such situation?
- a) Return Both the DDs.
 - b) Bank should pay the duplicate and return the original with remarks, "DD reported lost and duplicate since issued and paid"**
 - c) Since Original is received, the Original DD should be paid and duplicate to be returned.
 - d) Bank should get confirmation from purchaser and pay accordingly.
48. Types of images of each cheque that need to be taken in CTS Clearing are –
- a) Front Gray Scale, Back Gray Scale and back Black & White.
 - b) Front Gray Scale and front Black & White only.
 - c) Front Gray Scale, front Black & White and back Black & White.**
 - d) Front Black & White and back Black & White.
49. Which Section and act deals with failure of Electronic Payment instructions due to insufficient fund as dealt with bouncing of cheques u/s 138 of NI Act?
- a) Section 25 of Payment & Settlement Systems act 2007**
 - b) Section 7 of Payment & Settlement Systems act 2007
 - c) Section 148 of NI Act
 - d) Section 143 of NI Act
50. NACH Credit can be used for
- a) Debit one account and credit many accounts with different Banks**
 - b) Debit many accounts with different Banks and credit to one account.
 - c) Any one of the above
 - d) None of the above.
