NEGOTIABLE INSTRUMENTS LAW: AN OVERVIEW
The Legal Information Institute

Negotiable instruments are mainly governed by state statutory law. Every state has adopted Article 3 of the Uniform Commercial Code (UCC)[1], with some modifications, as the law governing negotiable instruments. The UCC defines a negotiable instrument as an unconditioned writing that promises or orders the payment of a fixed amount of money. Drafts and notes are the two categories of instruments. A draft is an instrument that orders a payment to be made. An example is a check. A note is an instrument that promises that a payment will be made. Certificates of deposit (CD's) are notes. Drafts and notes are commonly used in business transactions to finance the movement of goods and to secure and distribute loans. To be considered negotiable an instrument must meet the requirements stated in Article 3. Negotiable instruments do not include money, payment orders governed by article 4A (fund transfers) or to securities governed by Article 8 (investment securities).

The rule of derivative title, which is applicable in most areas of the law, does not allow a property owner to transfer rights in a piece of property greater than his own. If an instrument is negotiable this rule is suspended. A good faith purchaser, who does not have any knowledge of a defect in the title or claims against it, takes title to the instrument free of any defects or claims. In relation to the suspension of the rule of derivative title, Article 3 provides for warranties to protect the parties in transactions involving negotiable instruments.

Checks are negotiable instruments but are mainly covered by Article 4 of the UCC. *See also* Banking Law[2]. Secured transactions may contain negotiable instruments but are predominantly covered by Article 9 of the UCC. *See also* Secured Transactions[3]. If there is a conflict between the Articles of the UCC both Article 4 and 9 govern over Article 3.

The United Nations Convention on International Bills of Exchange and International Promissory Notes[4] would preempt Article 3 in the case of international transactions if the United States were to join. (As of late 1994 it had not ratified the treaty.)

1. http://www.law.cornell.edu/ucc/3/overview.html
2. http://www.law.cornell.edu/wex/banking
3. http://www.law.cornell.edu/wex/secured_transactions
4. http://www.jus.uio.no/lm/un.bills.of.exchange.and.promissory.notes.convention.1988/doc.html