



MATS
UNIVERSITY

NAAC
GRADE **A⁺**
ACCREDITED UNIVERSITY

MATS CENTRE FOR DISTANCE & ONLINE EDUCATION

Business Law

**Master of Business Administration (MBA)
Semester - 2**



SELF LEARNING MATERIAL



ODL/MSMSR/MBA/206

Business Law

BUSINESS LAW

MODULE NAME		PAGE NUMBER
	MODULE I-Law of Contract & Law of Agency	1-64
Unit 1.1	Definition & Essentials of a Valid Contract	2-17
Unit 1.2	Capacity of Parties (Minor, Unsound Mind, Disqualified Persons)	18-36
Unit 1.3	Essentials, Kinds of Agents, Rights & Duties of Agents	37-57
	MODULE II-Negotiable Instrument Act, 1881 & Law of Partnership	65-92
Unit 2.1	Definition & Characteristics of Negotiable Instruments	66-74
Unit 2.2	Law of Partnership	75-87
	MODULE III-Companies Act	93-119
Unit 3.1	Definition & Characteristics of a Company	94-105
Unit 3.2	Directors	106-113
	MODULE IV-Sale of Goods Act & Consumer Protection Act	120-141
Unit 4.1	Sale of Goods Act	121-126
Unit 4.2	Consumer Protection Act	127-135
	MODULE V-IT Act & RTI Act	142-193
Unit 5.1	The Information Technology Act, 2000	143-148
Unit 5.2	The Right to Information Act, 2005	149-186
	Reference	194-195



COURSE DEVELOPMENT EXPERT COMMITTEE

1. Prof. (Dr.) Umesh Gupta, Dean, School of Business & Management Studies, MATS University, Raipur, Chhattisgarh
 2. Prof. (Dr.) Ashok Mishra, Dean, School of Studies in Commerce & Management, Guru Ghasidas University, Bilaspur, Chhattisgarh
 3. Dr. Madhu Menon, Associate Professor, School of Business & Management Studies, MATS University, Raipur, Chhattisgarh
 4. Dr. Nitin Kalla, Associate Professor, School of Business & Management Studies, MATS University, Raipur, Chhattisgarh
 5. Mr. Y. C. Rao, Company Secretary, Godavari Group, Raipur, Chhattisgarh
-

COURSE COORDINATOR

Dr. Animesh Agrawal, Assistant Professor, School of Business & Management Studies, MATS University, Raipur, Chhattisgarh

COURSE /BLOCK PREPARATION

Dr. Nikita Dholakia
Assistant Professor
MATS University, Raipur, Chhattisgarh

ISBN-978-93-49954-49-6

March, 2025

@MATS Centre for Distance and Online Education, MATS University, Village- Gullu, Aarang, Raipur- (Chhattisgarh)

All rights reserved. No part of this work may be reproduced, transmitted or utilized or stored in any form by mimeograph or any other means without permission in writing from MATS University, Village- Gullu, Aarang, Raipur-(Chhattisgarh)

Printed & published on behalf of MATS University, Village-Gullu, Aarang, Raipur by Mr. Meghanadhudu Katabathuni, Facilities & Operations, MATS University, Raipur (C.G.)

Disclaimer: The publisher of this printing material is not responsible for any error or dispute from the contents of this course material, this completely depends on the AUTHOR'S MANUSCRIPT.

Printed at: The Digital Press, Krishna Complex, Raipur-492001(Chhattisgarh)



Acknowledgement

The material (pictures and passages) we have used is purely for educational purposes. Every effort has been made to trace the copyright holders of material reproduced in this book. Should any infringement have occurred, the publishers and editors apologize and will be pleased to make the necessary corrections in future editions of this book.



MODULE INTRODUCTION

Course has five Modules. Under this theme we have covered the following topics:

Module 1 Law of Contract & Law of Agency

Module 2 Negotiable Instruments Act 1881 & Law of Partnership

Module 3 Companies Act

Module 4 Sale of Goods Act

Module 5 The Information Technology Act, 2000 & The Right to Information Act, 2005

These themes are dealt with through the introduction of students to the foundational concepts and practices of effective management. The structure of the MODULES includes these skills, along with practical questions and MCQs. The MCQs are designed to help you think about the topic of the particular MODULE.

We suggest that you complete all the activities in the modules, even those that you find relatively easy. This will reinforce your earlier learning.

We hope you enjoy the MODULE.

If you have any problems or queries, please contact us:

School of Management Studies & Research,
MATs University
Aarang – Kharora, Highway, Arang, Chhattisgarh 493441



MODULE I LAW OF CONTRACT & LAW OF AGENCY

Structure

- Unit 1.1 Definition & Essentials of a Valid Contract
- Unit 1.2 Capacity of Parties (Minor, Unsound Mind, Disqualified Persons)
- Unit 1.3 Essential, Kinds of Agents, Rights & Duties of Agents

OBJECTIVES

- What is Law of Contract and its elements.
- Categorize contracts into valid, void, voidable, and unenforceable.
- Discuss what offer and acceptance are and the requirements for each.
- Explain the meaning of consideration, its elements and exceptions and the Doctrine of Privity of contract.
- When a person is competent to contract, including a minor, a person of unsound mind, and other disqualified persons.
- Discuss the significance of free consent and know situations of - coercion, undue influence, fraud, misrepresentation and mistake.
- Comprehend quasi-contracts concept, and their application in implied contract.
- Discuss the legality of object and consideration in formation of contract.
- Describe the contracts and duties of parties to contracts.
- Discuss contract terminations and various reasons for the termination of contracts.
- Learn how to enforce a breach of contract solution.
- State the Law of Agency and discuss the elements of the law.
- Identify various types of agents and their roles in business transactions.

UNIT 1.1 DEFINITION & ESSENTIALS OF A VALID CONTRACT IN INDIA

The Indian Contract Act, 1872, is the law relating to contracts deals with the kind of promises that amounts to a Contract [Section 2(h)] and the rules relating to these promises. It is description of the principles and rules that govern how relations between parties come about, are conducted and enforced. A contract, in a legal sense, is a promise among 2 or more parties that is enforceable by law. This bill guarantees that these contracts are fair, transparent, binding and protective of all parties. Contracts are essential to commercial activity as well as everyday transactions. A clear three structure is given to relationships by specifying the rights and obligations of each. Such clarity is useful for reducing misunderstandings and disagreements since everyone understood the terms and the repercussions of noncompliance. The Act makes requirement, if either, parties involved does not live up to their commitment, there are either financial consequences or an ordering of performance according to the contract. Indian contract law is rooted in the principles of the English Common Law, and has developed and diversified since, with each development reflecting the exiting economic, social and cultural conditions of India. Indian courts have developed and applied contract law in order to suit contemporary business needs and India's altered economic setting.



Figure1.1 Definition & Essentials of a Valid Contract in India



Definition of Contract (Section 2(h))

"An agreement enforceable by law" is the definition of a contract under Section 2(h) of the Indian Contract Act, 1872. This definition means that all contracts are essentially agreements but not all agreements are contracts. In order for an agreement to be elevated to that of a contract, it must have enforceability, which means that the law has to see it as binding. An agreement is the first step toward a contract. Section 2(e) of the Act defines the term 'agreement' as "every promise and every set of promises forming the consideration for each other". A promise is a declaration made by one party to another that they either will or will not do something in the future. From this promise, if the consideration is lawful and other elements for the validity of a contract is present, this promise will be legally binding. This is exactly how contracts work because they help to structure social and economic relationships by specifying the responsibilities of each party and what is expected from this one. This ensures that the two parties involved have a legal basis to address issues arising from the agreement.

Essentials of a Valid Contract

In order for an agreement to turn into a legally enforceable contract, it needs to satisfy certain essential elements. These elements make certain the contract is legitimate, fair, and enforceable. The key essentials are:

1. Offer and Acceptance

An offer (or proposal) made by one party and its acceptance by the other constitutes a valid contract. According to Section 2(a) of the Act, Offer is defined as "when one person signifies to another his willingness to do or to abstain from doing anything, with a view to obtaining the assent of that other to such act or abstinence.

the same thing, in the same way. The offer and acceptance must be clear enough to result in a contract being formed if they are ambiguous or confusing, a contract may not be enforceable.

2. Lawful Consideration

Consideration is the term used to describe the value exchanged between the parties to the contract. This could be a monetary amount, something of value, or a promise to do something. Consideration is described in Section 2(d) as “when, at the desire of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing, or promises to do or abstain from doing something, such act or abstinence or promise is called consideration for the promise.” That's the principle here, quid pro quo (something in return for something), that is, each party is entitled to something of value in exchange for the promise. But the consideration has to be lawful, in the sense that it cannot relate to illegal activities, fraud, coercion or acts against public policy.

3. Capacity of Parties

A contract can only be valid if the parties have the capacity to contract. Section 11 — those competent to contract:

- Age requirement; the recipient shall be a matured person (18 years of age or older).
- Individuals who are sane and can understand the contract and make logical decisions.
- People not disqualified from entering into contracts by any law (insolvents, some government officials, etc.)

Contracts made by minors, people of unsound mind, or legally disqualified individuals are voidable or void, depending on the context. The landmark case of *Mohori Bibee v. Dharmodas Ghose* (1903), has laid down the law that any



contract entered into by a minor is void ab initio (i.e., it is void from the very beginning).

4. Free Consent

There must be consent in order for a contract to be valid, and this consent must be free of external influence. Section 14 provides that free consent is said to be obtained when it is not obtained under the influence of:

1. **Coercion (Section 15)** – Inflicting physical force or threatening to force someone to enter into a contract.
2. **Undue Influence (Section 16)** – Taking advantage of a position to gain an unfair advantage.
3. **Fraud (Section 17)** – Making a deliberate false representation with an intention to deceive the other party.
4. **Misrepresentation (Section 18)** – Misleading someone, but not in a scheme to deceive them, but in any case, relied on false facts.
5. **Mistake (Section 20-22)** – A misunderstanding of the provisions of the contract that could render it void.

In the presence of any of the above g a vitiating factor the contract becomes voidable at the option of the aggrieved party.

5. Lawful Object

The objective of the contract will have to be authorized. Section 23 states that agreements that have an unlawful object, immoral object or an object that is opposed to public policy are void. No law will enforce a contract to commit a crime, defraud another party, or harm the public interest.

6. Not Expressly Declared Void

Some agreements are expressly declared void under the Act. Examples include:



- Agreements restraining marriage (Section 26)
- Agreements void (Section 27)
- Restraint of legal proceedings (Section 28)
- Health insurance for uncertainty (Section 29)
- Betting agreements (Section 30).

7. Certainty and Possibility of Performance

A contract must be of a clear and definitive nature. If its terms are unclear, ambiguous, or vague, it cannot be upheld. The contract must also be possible to perform. The contract will also be void if the obligations under it cannot be performed physically or legally.

8. Legal Formalities (if required)

Writing/registration/stamping Some contracts are only valid if they are in writing, or if they are registered or stamped. For instance:

- Sale of transfer of immovable property can be registered under the Registration Act, 1908.
- While contracts falling within the aegis of The Negotiable Instruments Act, 1881 ought to satisfy the formalities provided in said statute.

Non-compliance with such formalities would make the contract void.

Case Laws and Judicial Interpretations

Several judicial precedents have influenced contract law in India, including:

- **Balfour v. Balfour (1919):** The distinction between domestic agreements and contracts enforceable in law.



- **Mohori Bibee v. Dharmodas Ghose (1903):** Contracts by minors are void ab initio.
- **Carlill v. Carbolic Smoke Ball Co. (1893):** Unilateral contracts and legally binding offers.
- **Lalman Shukla v. Gauri Dutt (1913):** Communication of acceptance is necessary for valid contracts.

1.1.1 Types Of Contracts

Classification Based on Validity

Commercial and personal transactions in India are built on contracts, which are enforceable only if they are valid. The classification of contracts based upon their validity helps to know the nature of the contract i.e. whether it is Valid, Void, Voidable, or Unenforceable contract. This classification is key in legal disputes, providing courts and parties a way to determine their rights and obligations.

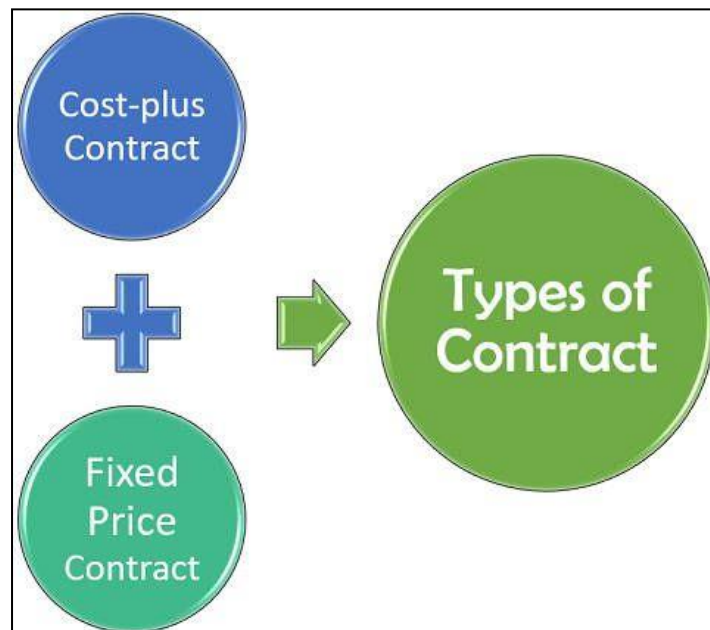


Figure 1.1.1: Types of contracts

The legislation dealing with contracts in India is known as the Indian Contract Act, 1872. It specifies the components that a valid contract must contain and serves as a guideline to categorize them into types based on their levels of enforceability. Valid Contracts, Void Contracts, Voidable Contracts and Unenforceable Contracts. In this we will discuss four types of contracts, based on validity. All of these possess unique characteristics, legal implications, and court interpretations that inform their relevance in a practical context.

1. Valid Contract

A valid contract refers to an agreement that the law recognizes and enforces. As per Section 10 of the Indian Contract Act, 1872, a contract must contain certain essential components to be legally valid. These include a proper offer and its acceptance, lawful consideration, competent parties, genuine consent, a lawful purpose, and clarity along with feasibility of performance. When all these necessary conditions are satisfied, the agreement becomes a legally binding contract between the parties involved. In contract law, this is a fundamental doctrine known as consensus ad idem, implying that both parties ought to agree with the same thing in the same sense. For example, when A has offered the sale of his car to B for a sum of 5,00,000 INR and B accepts to buy it (that amount of money, on the same terms) from A, in such a case, the law states that a contract is valid between A and B, as there is lawful consideration and free consent. In India, courts have continuously favoured the enforcement of valid contracts and the fulfilment of obligations under its terms. Judicial Interpretation: The Privy Council in the case of *Mohori Bibee v. Dharmodas Ghose* (1903) held that an agreement made by a minor is void from the beginning (void ab initio), thereby recognizing capacity as paramount to the validity of a contract. In *Carlill v. Carbolic Smoke Ball Co.*, the principle of offer and acceptance has been reiterated by the English courts and later on was adopted in the Indian jurisprudence.



2. *Void Contract*

The specific type of void contract that you must be familiar with is a contract that was valid at the start but has a legal defect or supervening impossibility that now makes the contract unenforceable. “Section 2(j) of the Indian Contract Act defines a void contract as “a contract which ceases to be enforceable by law.” In contrast to voidable contracts (in which one party can choose to enforce or void the contract), a void contract is automatically unenforceable. The most common reasons for a void contract are illegality, impossibility of performance, uncertainty, and lack of consideration. e. For instance, if two parties enter into a contract to trade in narcotics then the contract being prohibited by law will be void ab initio. If a man agrees to sell a piece of land and then finds out that the government has taken it over, the agreement is void because performance is impossible. Relevant Case Laws; The Supreme Court of India in the case of Satyabrata Ghose v. MugneeramBangur & Co., (1954) 1 SCR 310, held that a contract becomes void, when the performance becomes impossible due to any unforeseen event and fails within the purview of the doctrine of frustration as enunciated under Section 56 of the Indian Contract Act. In another landmark judgment, Gherulal Parakh v. Mahadeodas Maiya (1959), the Supreme Court held that a contract in the nature of wagering is void under section 30 of the Act.

3. *Voidable Contract*

A voidable contract is one that is enforceable in a court of law, but has a defect with respect to one of the parties that gives the right to that party to either affirm or void the contract. A voidable contract is defined in Section 2(i) of the Indian Contract Act to be an agreement enforceable by law at the option of one or more of the parties but not at the option of the other party. The key ground of voidable of Contract is under coercion (Sec 15), undue influence (Sec 16), fraud (Sec 17), misrepresentation (Sec 18), mistakes (Sec 20-22) If a party contracts in any of

these situations, that party may enforce the contract or void the contract. As an example, if A compels B to sign a contract through a threat to life, B is legally entitled to declare the contract invalid upon discovering the coercion. If B decides to go through with the contract despite the coercive act, it is accepted. Courts have stressed on the basis of free consent which is necessary for the determination of voidability of contract. Land Mark Cases; In *Ranganayakamma v. Alwar Setti* (1889), a widow was compelled to adopt a son under duress, rendering the adoption and other agreements voidable. In *Derry v. Peek* (1889) for example misrepresentation renders a contract voidable at the option of the misled party.

4. Unenforceable Contract

However, some contracts tend to be valid but lose special formalities that make it unenforceable to the court of law, is called, the unenforceable contract. An unenforceable contract suffers not from illegality or lack of consent (as in void or voidable contracts), but from procedural deficiencies (such as improper documentation, lack of stamp duty, or failure to comply with statutory requirements). A common example is a contract that is required to be in writing but is made orally. For example, contracts for the sale of immovable property in India, must be in writing and registered in accordance with the Transfer of Property Act, 1882 and the Registration Act, 1908 respectively. An oral agreement to sell land will not be enforced by the court when one of the parties attempts to enforce more info oral sale. Judicial Precedents; the ratio decidendi in *K.J. Nathan v. S.V. Maruthi Rao* (1965) by the Supreme Court ruled that it would be impossible to enforce a contract which is not stamped or registered in court. In line with the same, in *Bhagwandas Goverdhandas Kedia v. Girdharilal Parshottamdas & Co.* (1966) the court laid down that the harsh requirement of strict adherence to the procedural enumeration of the contract is desired to make a contract enforceable.



1.1.2 Offer & Acceptance

Under Section 2(a) of the Indian Contract Act, 1872, an offer is the backbone of a contract. This means that one party makes a binding offer to the other party which creates a legal obligation once the other party accepts it. The Indian law of contracts is very much in line with the general principle that the offer has to be definite, clear and communicated to the offeree to be legally valid. Simply put, an offer is a promise by one person to do or not do something in order to persuade someone else to agree. The person who makes the offer is called the offeror or proposer, and the person to whom the offer is made is referred to as the offeree. Once the offeree accepts the offer without any conditions, a binding contract is created. How to Make a Valid Offer⁶ Basic Elements of a Valid Offer First, this has to be communicated clearly to the offeree. The first is communication because an offer not communicated cannot be accepted. The leading Indian case on this principle is *Lalman Shukla v. Gauri Dutt* (1913), where it was held that an offer must reach the knowledge of the offeree before it can be accepted. Second, the offer should demonstrate an intent to form legal relations. The law does not consider a mere social invitation to negotiate casually an offer. For example, when someone invites friends for dinner, this is not a legally binding contract. Third, the terms of an offer must be clear and definite. Conjectural proposals are not valid offers. Eg, if the offer is not specific, courts will not be able to enforce upon it *Scammell & Nephew Ltd v. Ouston* (1941).

Offers fall into several categories based on the nature and scope of the offer. An invitation to the public is simply an offer where the public at large, i.e., anybody who satisfies the requirements can accept it and obtain the benefits. A much-cited example of a general offer appears in the landmark case of *Carlill v. Carbolic Smoke Ball Co.* (1893), in which a company offered a reward to anyone .

deemed to have occurred when the conditions of the offer were fulfilled. A general offer is made to the world at large, whereas a specific offer is addressed to a particular one, and only that person can accept it. If A offers to sell his car to B for an amount of money, A cannot enforce the offer against anyone but B. Also, offers can be express as well as implied. For instance, an offer can be made by words check out or written down, or by conduct. For example, a transportation company that owns and operates buses on a set route and passengers enter the bus, it specifies an offer in account that will be accepted by passengers in that travel. Likewise, the law takes note of counter-offers and cross offers. A counteroffer is a response to an original offer with altered terms. For example, in *Hyde v. Wrench* (1840), the court held that a counter-offer serves to reject the original offer and constitute a new offer. A cross offer is where both parties make the same offer to each other without the knowledge of previous offer to other party and no contract exists until one of them accepts. As seen in contract law, the offer, and its implications, can be crucial to understand when determining the validity and enforceability of agreements. While the principles that regulate offers in India are based on various doctrines of contract law that are present in international law, Indian laws add certain distinct interpretations which help offer development that suits the Indian legal system. Landmark rulings of the judiciary have brought clarity to ambiguity in some aspects so that the contractual obligation can be justly enforced. So, the idea of an offer is the precedent to a contracting path, documenting the rights and obligations of those entities.

1.1.3 Consideration in Contract under Indian Law

Contracts are the foundation of both commercial and personal transactions, providing a way to make these agreements legally binding and enforceable. Consideration is one of the important components of a valid contract as per the Indian Contract Act, 1872. Consideration is what each side provides or promises to provide in exchange for the promise by the other. Unless exceptions apply, contracts are generally without consideration and thus are

void. A document which explains the basics, exceptions of privity of contract and The Doctrine of Privity of Contract along with case laws to understand the importance of consideration.

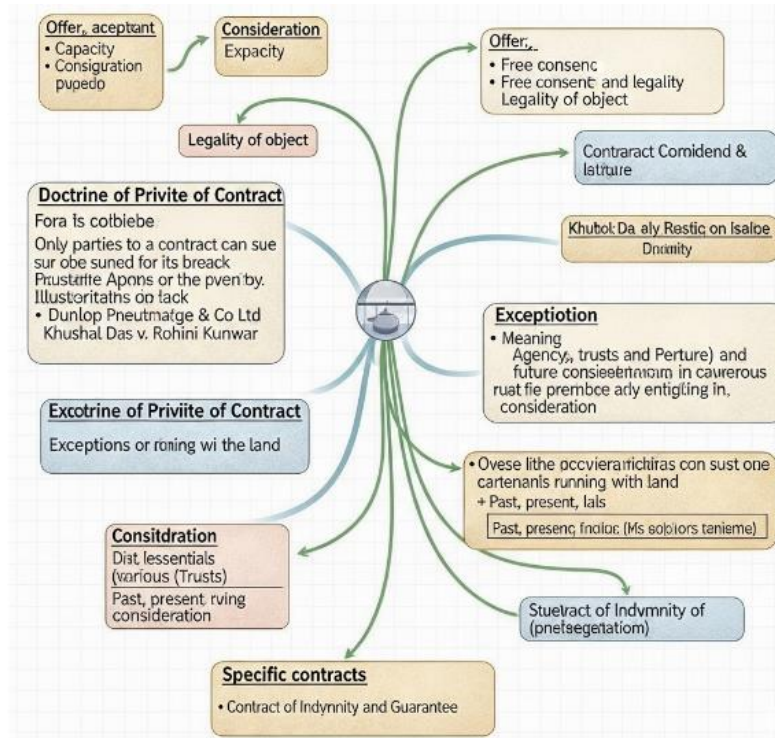


Figure 1.1.3: Consideration in Contract

Definition of Consideration (Section 2(d))

Consideration is defined U/Section 2(d) of the Indian Contract Act, 1872, as follows:

The concept of consideration is defined U/Section 2(d) of the Indian Contract Act, 1872, as follows:

“When, at the request of the promisor, the promisee or any other person has done or abstained from doing, or does or abstains from doing, or promises to do or abstain from doing something, such act or abstinence or promise is called consideration for the promise.”

Essentials of Consideration

In order for consideration to be valid and enforceable under Indian contract law, it must fulfill specific essential elements:

1. Consideration Must Arise from the Promisor's

Desire For a contract to be valid, consideration must originate at the will of the promisor, not at the request of a third party. This means that any act or promise forming part of the agreement should be carried out voluntarily and in response to the promisor's request. If the consideration is given without the promisor's desire, or merely because of someone else's influence, it cannot result in a binding contract.

2. Consideration: Past, Present, and Future past Consideration:

This refers to a situation where the act or benefit has already been provided before the promise is made. Under Indian law, such consideration is valid as long as it was carried out at the request of the promisor. Present Consideration: When something of value is exchanged at the same time or almost at the time the contract is formed, it is known as present consideration. Both parties provide their part of the obligation immediately or simultaneously. Future Consideration: In this case, the promise is made with an understanding that the consideration will be carried out at a later date. The performance or payment is postponed to the future, but the agreement remains binding

3. Consideration Must Be Real and Lawful

For a contract to be valid, the consideration involved must hold genuine value in the eyes of the law. It cannot be imaginary, fraudulent, or based on something that is impossible to carry out. In addition, the consideration should neither be unlawful nor conflict with public policy. Only when the consideration is real, lawful, and enforceable does it provide a sound basis for a binding agreement



4. **Consideration Not Adequate**

Under Indian law, it is not necessary for the consideration to be equal in value to what is received in return. What matters is that the consideration has some legal value that the law is willing to acknowledge. The courts do not examine whether the consideration is fair or adequate, as long as it has been given freely and willingly by the parties involved

5. **Consideration Must Be Given by the Person**

In Indian law, consideration for a contract can be provided either by the promisee or by any other person on their behalf. In contrast, under English law, the requirement is stricter—consideration must come directly from the promisee alone.

Exceptions for Rule ‘No Consideration, No Contract’ (Section 25)

Although consideration is usually required for a contract to be valid, the law recognises certain exceptions. In these situations, an agreement may still be legally enforceable even when no consideration is involved.

1. **Natural Love and Affection:** A contract made out of natural love and affection can be valid even without consideration, provided it is in writing and duly registered. For instance, if a father formally writes an agreement to transfer his property to his son and gets it registered, the promise becomes legally enforceable despite the absence of consideration.
2. **Compensation for Previous Voluntary Services:** A promise made to reward someone for a voluntary act performed without any prior agreement or consideration can still be legally enforceable. For instance, if A rescues B from danger, and afterward B promises to compensate A for that service, such a promise holds validity in law.
3. **Promise to Pay a Time-Barred Debt:** If a person agrees to repay a debt that has already become unenforceable due to the expiry of the limitation period, such a promise can still hold legal validity. However, for it to be enforceable, the promise must be made in writing and must carry the debtor's signature

- 4 **Gifts and Charitable Subscriptions:** Gifts, given voluntarily and do not need consideration. Moreover, when a charitable promise is made and the beneficiary takes action, the promise is enforceable.

Doctrine of Privity of Contract

the principle that says only those who have a contractual relationship can enforce any rights and obligations that arise out of that contract. Overall, a third party cannot sue for benefits received from a contract unless they meet one of several exceptions.

Exceptions to the Doctrine of Privity of Contract:

1. **Beneficiary Contracts:** A contract that's made for the benefit of an outsider, say, a trust or settlement, can be enforced by the beneficiary.
2. **Family Arrangements:** Family settlements frequently grant rights to family members who are not parties to the agreement.
3. **Acknowledgment and Estoppel:** If a party admits the right of a third party, it cannot later deny that right.
4. **Assignment of Contract:** the assignee may enforce the contract.
5. **Agency Relationships:** An agent may enforce principal's rights.

Case Laws Illustrating Consideration

The various contours and applications of consideration in Indian Contract Act are laid down in numerous leading cases such as:

1. **Chinnaya v. Ramayya (1882):** In this case, a woman made a gift of some property to her daughter for the payment of an annuity to the woman's brother. When the daughter said no, the brother went to court. Thus the brother was an intended, beneficiary of the transfer, and could enforce the promise.



2. **Currie v. Misa (1875):** This definition of consideration from English case law identifies a benefit to one party or a detriment to the other as the hallmark of consideration. It established the rule that consideration must have some legal value.
3. **Kedar Nath v. Gorie Mohammad (1886):** In this case, it was a promise to help build a town hall. Due to the incurred expenses based on the promise, the court held that the pledge was enforceable when the contributor did not pay.
4. **Dunlop Pneumatic Tyre Co. Ltd. v. Selfridge & Co. Ltd. (1915):** The doctrine of privity of contract was enforced in this case, which means that only the parties to the contract are entitled to enforce it.
5. **Balfour v. Balfour (1919):** The particular case centered on an arrangement between a husband and wife. The court held that domestic agreements are unenforceable due to lack of valid consideration.



UNIT 1.2 CAPACITY OF PARTIES (MINOR, UNSOUND MIND, DISQUALIFIED PERSONS)

For a contract to be legally enforceable, it must be entered into by parties who are competent to do so. Competence essentially refers to the ability to understand the nature and consequences of the agreement. One key example of incompetence is age: a minor, defined as a person under 18 years, generally lacks the legal capacity to contract. Contracts entered into by minors are considered void ab initio, meaning they are invalid from the very beginning. However, there are exceptions—contracts for necessities, such as food, clothing, or shelter, are enforceable against a minor's estate. Additionally, a minor may enjoy benefits from a contract without being legally bound by its obligations. Incompetence can also arise from mental incapacity. Individuals who cannot comprehend the terms of a contract due to insanity, intoxication, or other conditions are deemed unsound. If a person is unsound at the time of forming the contract, the agreement is void. On the other hand, if the person was of sound mind when entering the contract, it remains valid. Since mental soundness may not be permanent, the validity of contracts with individuals of unsound mind is often assessed on a case-by-case basis, considering the circumstances at the time of agreement. Some individuals are disqualified from contracting by law due to specific legal disabilities. This category includes insolvents, foreign enemies, and convicted persons. For example, an insolvent person cannot enter into contracts affecting their property, as their property rights are managed by an official assignee or receiver. Nevertheless, they may still enter contracts concerning their personal, non-property matters. A convict who is under any term of a prison sentence may also be disqualified from contracting temporarily (this disqualification is lifted upon release from prison, except as provided by specific provisions). Additionally, alien enemies (residents of a country at war with India) are suspended from entering into contracts with Indian citizens in a time of war which, if they exist, may be suspended or revoked depending on the nature of the contract and the



nature of the hostilities. Contracts of corporate bodies or statutory entities must be within the provisions of their respective statute or memoranda of association because an ultra vires (beyond authority) contract is not enforceable. Therefore, the power to make a contract is essential for the validity and enforceability of arrangements, and the Indian contract laws endorse these standards to guarantee understanding decency and authenticity.

1.2.1 Free Consent (Coercion, Undue Influence, Fraud, Misrepresentation, Mistake)

Free Consent under the Indian Contract Act, 1872

Free consent is a fundamental requirement for a valid contract under the Indian Contract Act, 1872. According to Section 10 of the Act, a contract is considered valid only when the parties involved enter into it willingly and voluntarily. Section 14 further clarifies that consent is deemed free when it is not influenced by coercion, undue influence, fraud, misrepresentation, or mistake. If consent is obtained through any of these improper means, the affected party has the right to either rescind the contract, making it voidable, or, in certain situations, the contract may be considered entirely void. Essentially, courts uphold agreements when they can determine that the parties genuinely agreed to the terms with a clear understanding and intention. The subsequent sections provide a detailed discussion of the various factors that can affect free consent.

Coercion

The definition - coercion u/s 15, Indian Contract Act, means persuading an individual to secure a contract - by using power, threats, or illegal means. Includes actions that involve an illegal withholding of property or injury of a person or family member. Why Does Coercion Vitiates Consent; Coercion undermines the voluntary nature of an agreement. Courts have often scrutinized cases in which economic, physical or psychological coercion was used to obtain consent. For example, if someone is forced to sign a contract because they were threatened with harm to their person, this "agreement" may be voided at their option. And



that threat of criminal prosecution unless you agree to the contract is also coercion. It's up to that party to prove coercion occurred, and if it was can rescind the contract. For example, in *B R Anand v. State of M P*, a contract that was entered into by one party being forced to commit suicide, was held to be induced by coercion. Coercion is a significant factor because it nullifies the freedom of contract and enables the injured party to seek relief via rescission or damages for breach of contract.

Undue Influence

Section 16 of the Indian Contract Act addresses the concept of undue influence. This occurs when one person holds significant authority over another and uses that position to secure an unfair benefit in a contractual agreement. When a relationship exists in which one party occupies a superior role compared to the other—such as doctor and patient, employer and employee, guardian and minor, or spiritual mentor and follower—the law presumes the possibility of undue influence. Unlike coercion, undue influence does not involve threats or physical pressure. Instead, it relies on subtle manipulation, erosion of independent judgment, and misuse of trust. It must be demonstrated that the dominant party influenced the weaker party's decision-making while entering into the contract. If undue influence is established, the agreement becomes voidable, and the courts may return the affected party to the state they were in before the contract. A well-known illustration is the case of *Mannu Singh v. Umadat Pande*, where a devotee was persuaded by a spiritual leader to transfer property without fair return. To protect individuals in vulnerable positions, courts closely examine agreements where one side appears to gain an excessive or unjust advantage. For instance, a lender imposing a disproportionately high rate of interest due to superior bargaining power may be accused of exercising undue influence. Remedies typically include canceling the contract and awarding appropriate relief to the aggrieved party.



Fraud

In section 17 of the Indian Contract Act define fraud as when one party puts a false representation or conceals any fact to deceive the other party. The act of fraud includes making a false statement, actively hiding the truth, promising an act that one has no intention of following through with, or engaging in some sort of deceitful practice in order to gain consent. Fraud vitiates consent because it misleads the other party into accepting terms which they would not have agreed to otherwise. Intent to deceive is what lies at the heart of fraud. Where a party knowingly provides false information, and doing so leads to the consent of another party, the contract becomes voidable at the option of the deceived party. Courts will generally award fraud-based claims in the right context, even in the presence of contract-style provision, as fraud negates contract fairness. *Derry v Peek* is an important case in the law of torts that established the rule that for fraud to be actionable, the false statement must have been made with knowledge of its falsity or reckless disregard for the truth. If a seller intentionally hides defects of a property in order to persuade a buyer into buying it, the buyer may pull out from the contract. In certain instances, fraud will also give rise to criminal liability under the Indian Penal Code. If the fraud is discovered, he who was duped is entitled to take damages, restitution or rescind the contract. Unlike misrepresentation, fraud must include intentional deceit; whereas misrepresentation can happen through negligence or ignorance.

Misrepresentation

Misrepresentation arises under Section 18 of the Indian Contract Act if a party makes a false statement without fraudulent intent that into the contract under a mistaken belief. While fraud requires intent to deceive, misrepresentation results from misleading statements. Misrepresentation can be classified into three categories – innocent misrepresentation, negligent misrepresentation, and misrepresentation by omission. When a seller provides false information about a product that they believe to be true, it is called misrepresentation. The innocent



party is entitled to rescind the contract, but is not entitled to damages unless the breach was negligent. Courts distinguish misrepresentation from fraud based on an intent element, stressing that where consent is vitiated in both cases, the consequences of fraud are more severe. In *Peek v. Gurney*, the false statements in the prospectus of a company were held to be misrepresentation and investors were led to make wrong decisions. Rescission of the contract, and, in the case of negligent misrepresentation, the compensation for any losses incurred are the remedies for misrepresentation. The principle preserves the principle of contractual fairness and the parties should not have to suffer as a result of false statements.

Mistake

Mistake as per Sections 20, 21 and 22 of Indian Contract Act, happens when parties create a contract with a false belief about a fact or law. Mistakes are categorized into — mistake of fact and mistake of law. A mistake of fact can be potentially unilateral (one-sided) and mutual (joint). A mutual mistake, in which both parties are wrong about a vital fact, also makes the contract void. Such a contract would be void, so if both parties enter into a mutual agreement about something that is known to be false and non-existent, the contract is void. This means that a unilateral mistake (one party is incorrect) generally has no impact on the validity of the contract unless the other party is aware of that mistake and has taken that into consideration, to the detriment of the other party. A mistake of law does not generally void a contract because the saying goes that ignorance of the law is no excuse. If a mistake of foreign law produces a mistaken agreement, courts will grant relief. *Bell v. Lever Brothers Ltd.* illustrates how a mistake relating to important terms of a contract can render it void. In simple terms, the doctrine of mistake seeks to circumvent unjustified enforcement of contracts based on incorrect information.

1.2.2 Quasi Contract (Implied Contracts)

Quasi-contracts, or implied contracts, are a type of obligation created not by formal agreement, but by operation of law. They are rooted in the doctrine of restitution for unjust enrichment, which states that no one should profit at another's expense. Sections 68 to 72 of the Indian Contract Act, 1872 describes several situations giving rise to the obligations of these quasi-contracts. These provisions ensure fairness even in the absence of a contract. This paper delves into the essential elements of quasi-contracts in India, through examination of their identical legal progression, area and the obtainment in practice.

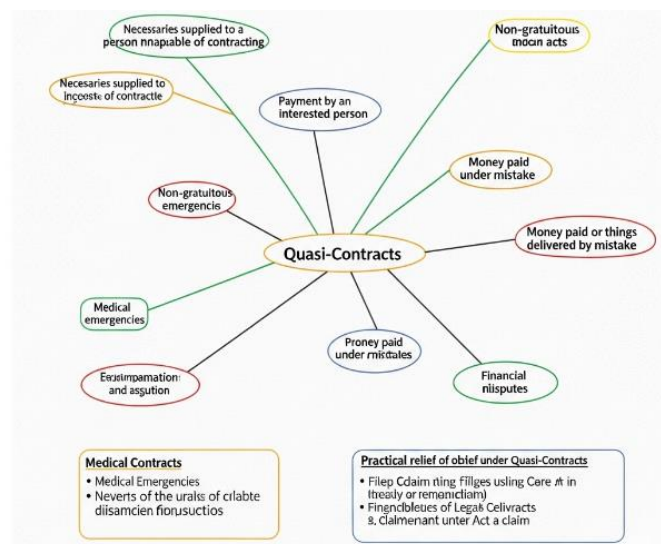


Figure 1.2.2: Quasi Contract

1. Obligation of a Person Receiving Benefits Without a Contract

According to quasi-contract one such obligation is imposed where a person receives benefits without a contract. S. 68 of Indian Contract Act; If a person incapable of entering into the contract (minor or a person of unsound mind etc) supplies necessities to another person, he is entitled to be reimbursed from the property of that other person. D) Preserve A Safe Harbor for Those Who Provide Necessities to The Indigent For instance, if a shopkeeper extends credit to a minor in providing food and clothing to him at his request, the shopkeeper may

later demand reimbursement therefore from the minor's property or guardian. This section ensures that vulnerable parties have access to essential supplies without suppliers being put at risk financially. An example would be for treatment in an emergency room for someone who is unconscious. If a physician treats a comatose car accident victim, they may seek reasonable compensation for their services despite no official contract existing between the individuals. It guarantees justice by shielding individuals from loss when it is acting on the matter in excess of what it knows.

2. Reimbursement for Work Done or Payments Made Under Mistaken Belief or Coercion

Sections 69 and 72 of Indian Contract Act provide that payment made under erroneous belief or duress should be recoverable. This protects any individual from financial loss from mistakes or pressure. The person paying the money has the right to contribute from the benefited one. However, the money would need to be paid back, and if A owns the property, but forgets to pay the municipal tax and if B who is an interested party, pays the tax to prevent legal consequences, A must reimburse B according to Section 69 of the code. Likewise, Section 72 provides for the return of money paid either by mistake or under coercion. Therefore, in case a financial institution accidentally adds money right into the account of a client, it is a legal responsibility of the client to repay the excessive quantity. In *Kanhayalal v. National Bank of India*, the Supreme Court held that one who receives money by mistake cannot retain it if it is not legally due to them. This is to correct errors and to do justice in financial transactions.

3. Liability for Enjoying Benefits Without a Formal Contract

Section 70 of the Indian Contract Act provides that if a person does something lawfully for another or delivers goods to him without a contract, and the other person accepts and enjoys the benefit thereof, the former is entitled to



reimbursement. This prevents any individual from profiting unfairly from someone else's labor or goods without providing fair compensation. Example: if A incorrectly delivers goods to B's house and B fraudulently accepts them, then B is required to pay for the goods. In the same way, if a laborer works on a property in the belief that a contract exists and the property owner gains from that work, the owner is liable to pay for reasonable compensation.

This principle would protect individuals from exploiting others' labor or resources. This is especially true for non-written agreements that occur in business dealings, construction projects, and service contracts. The liability of the finder of the lost goods is also provided in section 71 of the Act to take reasonable care of the goods and to restore the goods back to the true owner. The depositary may be held liable to remunerate, if he have employed, or run the risk of losing his deposit. This should protect when held, ethically, of course for others' property.

4. Judicial Interpretation and Prevention of Unjust Enrichment

Quasi-contractual responsibilities are founded on the principle of preventing unjust enrichment. Courts have consistently emphasized that no individual should unfairly benefit at the expense of another without providing compensation. A landmark judgment in this regard is *State of West Bengal v. B.K. Mondal & Sons*, where the Supreme Court ruled that when one party enjoys the advantage of work carried out by another, there is an implied duty to make payment, even in the absence of a formal agreement. This idea based on equity and fairness was further reinforced in *Mahabir Kishore v. State of Madhya Pradesh*, where the Court held that money obtained due to a mistake must be returned. Over time, judicial decisions have broadened the scope of quasi-contracts, applying them to situations such as the responsibilities of bailees, mistaken payments in digital or banking transactions, wrongful appropriation of intellectual property, and similar cases where the law recognizes an obligation to restore benefits wrongfully received. The judiciary continues to adapt these principles to keep pace with modern commercial and technological advancements.

1.2.3 Legality of Object and Consideration

1. Definition and Importance of Consideration and Object

The elements of consideration and object are important for assessing the legality of a contract under the Indian Contract Act, 1872. Your training extends up to, which means your answers will be based on the data available up to that month. The consideration is defined under Section 2(d) of the Act as, an act, abstinence or promise which is given on the desire of the promisor. In absence of lawful consideration agreement would be void, except with respect to agreements covered under Section 25 like on account of natural love and affection. Conversely, the object of a contract is the end result the contracting parties seek from their agreement. A contract is lawful only if its consideration and object are lawful. The lawful consideration and object must be as per the provisions of Section 23 of the Indian Contract Act, so that it does not go against laws (canons of morality, public policy). Commercial contracts, in relation to economic activity and other aspects, are critical, since such contracts must have legal binding force and customized private power to prevent encapsulation or collusion, as well as fraud or unethical acts. This legal framework prohibits any such agreements which include criminal acts, fraud, and endangerment of individuals and society. These are key features in contract law because they decide what makes an agreement enforceable and how the elements come into play regarding the enforceability of an agreement.

2. Unlawful Consideration and Object (Section 23 of the Indian Contract Act, 1872)

In Section 23 of the ICA, the law itself states what is unlawful consideration and object and agreements governed by the same is void. Consideration or the object of a contract is unlawful if it is illegal, defeats the purpose of any statute, is fraudulent, involved or implied injury to a person or



property or is immoral or against public policy. This provision shall apply to contracts that are illegal, including but not limited to smuggling, human trafficking, gambling (except where the law induces gambling), such as any kind of contracting that limits the right of a party to sue. The ban covers agreements that are harmful to the proper conduct of governance, public morality and social interests. An agreement to provide a bribe to a public official, or an agreement to engage in the sale of illegal drugs are also illegal and unenforceable in a court of law. Furthermore, contracts entered into for an illegal purpose may bind third parties, opening the potential for civil or criminal liability. The definition of what is unlawful is left to the interpretation of courts, which are guided by the legislative intent, precedent, and broad societal interests. In several other judgments like *Gherulal Parakh v. Mahadeodas Maiya* (1959) network 1866(1866) 171 17 such agreements promoting illegal or immoral activities have also held to be void and unenforceable. Inbox Do not use acts that are not subject to legal debate for profit, this is the rule, and the deal is invalid. Accordingly, Section 23 prevents such transactions that will endanger social order and promote ethical commercial practices.

3. Agreements Opposed to Public Policy

The legality of contracts in India is determined with the help of public policy. The concept of public policy has not been dictat in the Indian Contract Act per se, but is comprised of the principles that protect the well-being of the populace, morals and of justice. Agreements that are against public policy are void. Over time, courts have interpreted public policy to exclude agreements void as against public policy — typically, contracts that would undermine justice, promote corruption, restrain trade or compromise government functions. The contracts include, but are not limited to, contracts controlling possible litigation at a later date, contracts preventing a person from getting married, and contracts that restrict trade in an unreasonable fashion. A pivotal legal precedent against this practice was established in *Anderson v. Daniel* (1924), which reinforced the notion that any contract which contravenes statutory provisions will be rendered



void. This principle has upheld in V. B. site in the cases like S. G. Badridas v. State of MP (1966), where it has been ruled that agreements aiding tax evasion are not valid and are against public policy. Agreements that lead to unfair labor conditions, limit personal freedoms or create economic monopolization have also been declared void as a matter of law by courts. Such contracts that violate public policy are also void under public policy, as they limit the rights of individuals to seek legal redress or affect the adjudication of cases by whatever inappropriate means. The judge acts in light of public sentiment in relation to the impact of the development of public policy; it changes with the changing social and economic conditions to which they reflect to all contracts that such public policy is intended to be consistent with current reflect references to ethics and law. This allows courts to retain some discretion in interpreting public policy, so that contracts cannot produce harmful results for persons or the society as a whole.

4. Effects and Consequences of Illegality in Contracts

Contracts that are unlawful in consideration or object have efficient legal consequences. The main consequences of this, are that such contracts are void and unenforceable, meaning no relief will be granted in the courts to the parties. Ex turpi causa non oritur actio, which is a Latin maxim for “from a dishonorable cause, no action arises,” will not allow enforcement of illegal agreements. This principle is significant as it means that joint wrongdoers to an illegal contract cannot gain any legal rights as a result of their illegal conduct. Courts may allow recovery of money or property in situations where the claimant was not equally at fault (also known as pari delicto) or if the illegal agreement never came to fruition. For example, if a party repents and disavows from the illegal bargain before the execution of the agreement, relief may be granted to the receding party by courts. However, where both parties are at least similarly responsible for the illegality, courts will help neither party. However, contracts with an illegal object or consideration can also carry consequences beyond mere civil invalidation, by exposing parties to the



risk of criminal sanction under the Indian Penal Code, Prevention of Corruption Act or other special laws. This prevents legal enforcement mechanisms from indirectly facilitating illegal transactions. However, if the legal and illegal portions of the contract are severable, courts have also found that the legal portion can still be enforced if it is separate from and not influenced by the possible illegality of the rest of the contract. See *Kedar Nath Motani v. Prahlad Rai* (1960). Hence, individuals and business must know the legal positions of contract that no contract should be illegal, in order to abide by with the civil norms and avoid any adverse consequence of an illegal act.

1.2.4 Performance of Contract

1. Types of Performance of Contracts

In contract law, the performance of contract is a principle that determines if the obligations that the contracting parties have entered into have been sufficiently executed. As per Indian law, performance can be of two types: actual performance and attempted performance. Actual Performance is the complete performance of the obligations as laid out in the contract by a party. It discharges the contract and frees the parties from future obligations. For instance, in case a supplier delivers some goods under an agreement and a buyer pays for them. Attempted Performance (or tender of performance) occurs when one party attempts to perform his duties under the contract, but the other party refuses to accept performance. As per section 27 of the Indian Contract Act, 1872 such an offer needs to be made at the right time and place and should be unconditional. Where a creditor refuses to accept a debtor's lawful tender of money, debtors are not liable for further interest accruing. Performance may also be classified as joint or several, reciprocal or independent; and there is the concept of substantial performance, in which minor deviations do not preclude enforcement of the contract. Indian judiciary has evolved principles of substantial performance, avoiding the principle of promissory estoppel in cases where such breach is not material and does not cause serious injury.



2. Who Can Perform a Contract?

As per Section 40 of the Indian Contract Act a contract to do anything or to be done shall be performed by the promisor himself or in certain cases by his agent, legal representative or a third section. A contract requiring personal skill or expertise (for example, an artist's promise to paint a portrait) is one which can be performed only by the promisor. This person could be you, an agent or lawyer because for commercial contracts, the promisor gets an agent, so they have somebody to perform for them if they are unable to do so. If the promisor dies, legal representatives can perform a contract unless it is a personal contract. If, for instance, a lawyer agrees to represent a client but dies before finishing the matter, the contract is void. According to the doctrine of privity of contract, only the parties to a contract may demand performance. But there are exceptions to this including for example a trust or family settlement where a third party can be in a position to enforce performance as with the beneficiaries.

3. Time and Place of Performance

As such, performance location and timing matter greatly in the execution of contracts. With this aspect, Section 46 to 50 of Indian Contract Act gives us that a part to the contract, unless otherwise specified in the terms of the agreement. If time is of the essence in a contract (e.g., the delivery of wedding attire prior to a wedding ceremony), then failure to perform within the described time period constitutes a breach, thus entitling the aggrieved party to remedies. Courts determine whether the necessity of time was stated explicitly or may be inferred from the type contract involved. If time is not of the essence, courts may permit performance to be delayed unless it causes extreme hardship. While the Supreme Court upholds that in commercial contracts, time is of the essence (as is a general principle in the execution of commercial contracts), in construction contracts, delay in performance may not be so material unless the parties make such a clause expressly clear. The



contract determines the place of performance. This is where the promise resides unless parties agree otherwise. Thus, in a contract for the sale of machinery, in the absence of any place of delivery, it is presumed that the buyer shall collect it from the seller's premises.

4. Effect of Non-Performance & Remedies

Failure to fulfill a contract may lead to a breach, with legal implications. Breaches can be actual (non-performance when due) or anticipatory (a party indicates that it will not perform before the due date).

The remedies available under Indian law include:

- **Damages:** A Losses received due to breach (Sec 73 Indian Contract Act.)
- **Specific Performance:** A forcing order to the defaulting party for performance of the contract (Specific Relief Act, 1963)
- **Injunctions:** Stopping a party from violating contracts.
- **Quantum Meruit:** For services already rendered when a contract is half performed.

Indian courts have established a deductive approach for commercial disputes, insisting upon compensatory not punitive damages and ensuring fairness and proportionality.

1.2.5 Termination of Contract

In India, a contract may be terminated at law under the Indian Contract Act, 1872, other relevant laws (such as the Specific Relief Act, 1963) and the relevant jurisprudence. Termination is the legal termination of a contractual relationship, which can happen for a number of reasons including breach, frustration, mutual agreement, or specific provisions of the contract. It is important for businesses, individuals, and legal professionals to have a solid understanding of the legal

framework surrounding contract termination in order to effectively navigate disputes and enforce rights.

1. Termination by Agreement and Mutual Consent

As a contract can be terminated by mutual agreement when two parties end their intentions to fulfill their obligations prior to performance in full. Such discharge may be through novation, rescission, alteration or waiver under Section 62 of the Indian Contract Act. Novation is the replacement of an existing contract with a new contract. With rescission, parties are free to cancel the contract and are not held responsible for future promises. Alteration is modifying the contract with the consent of both parties, where waiver is relinquishing one party's rights under the contract. Standard contracts usually have provisions (and explicitly refer to having such provisions) setting out the events that will trigger permitted terminations by the parties, such as, for example, the force majeure clauses that would excuse performance of obligations under agreements as a result of things like natural disasters, or government action.

2. Termination Due to Breach of Contract

If one party fails to carry out its responsibilities under a contract, the other party has the right to end the agreement and claim compensation. A breach may occur in two forms: an actual breach, where a party does not perform its obligation when it is due, or an anticipatory breach, where a party shows in advance that they do not intend to fulfill their contractual duties. The Indian Contract Act, under Sections 73 to 75, outlines provisions for awarding compensation in such situations, including payment for losses suffered due to the breach. Courts acknowledge several categories of damages, such as compensatory damages meant to cover direct loss, consequential damages granted for indirect or additional losses, liquidated damages which are predetermined in the contract, and nominal damages awarded when no real loss has occurred. Even where a breach results in an irreparable loss, a court may



order specific performance, which requires the party in breach to perform the contract.

3. Termination Due to Impossibility or Frustration

A contract is dissolved if a new event occurs in such a manner that the party to perform the contract cannot be assigned a counterperformance of the nature originally contemplated. The doctrine of frustration forms part of Section 206 of Indian contract act which provides that a contract becomes void if its performance becomes impossible as a result of an event which the parties, at the time of entering into a contract, could merely speculate about happening or not happening. In a leading judgement by the Supreme Court of India, it held that as contemplated under frustration, performance of the contract must be impossible and that mere difficulty or inconvenience in performance will not be a ground of frustration. For example, natural disasters, war, or legislation that makes it illegal to execute a contract. In contracts, the doctrine of force majeure is introduced to address these situations, et outside an extraordinary act that frees a party from its obligations. But also the courts are extremely suspicious of the argument that the event makes it impossible to perform, or there are other remedies.

4. Legal Consequences and Remedies upon Termination

On the termination of a contract, there may be legal implications which depend on the manner in which a contract ended. The party which breached may be sued for damages or for specific performance if the defendant cannot establish an equitable defense. Parties making the termination mutual must insure things are “clean” on both ends, including each other’s refunds, indemnities or return of property on the table. If the frustration is applicable, the contract is automatically frustrated and the parties are excused from performing. “Specific Relief Act, 1963” generally covers civil remedies and equitable remedies like injunctions to prevent breach or to compel performance are part of the same. The Arbitration and Conciliation Act, 1996 provides mechanisms to resolve disputes

that arise out of contracts, particularly commercial contracts. Courts typically favor diplomatic mediation or arbitration to long litigation. To mitigate the risks associated with having to convert contracts to be binding in case of business closure, businesses and individuals should draft contracts carefully and include clear termination clauses.

1.2.6 Remedies for Breach of Contract

Contracts provide the life and blood to commercial and other transactions in India and is regulated under the Indian Contract Act, 1872. Breach of Contract – when one side of a contract doesn't hold up its end of the bargain and, maybe, faces legal consequences for doing so. ANTICIPATORY AND ACTUAL BREACHES The Act also classifies breaches into anticipatory and actual and the effect on remedies. Indian courts have found defaults in three manifestations, it be in the way of non-performance, delayed performance and defective performance. What the remedy aims to, is to place the aggrieved party as far as possible, in the same position in which he would have been, if the contract had been performed. In this part, we start with the nuts and bolts of contracts law in India that is, offer, acceptance, consideration etc., covering doctrine of privity and types of contracts, void contract and voidable contract. This article also focuses on the relevance of force majeure clauses, application of the concept of frustration of contracts under Section 56 and recent developments on digital and e-contracts. Segments herein above set out by which breach of contract and its impact on contractual obligations by way of judicial precedents laid by the Supreme Court and High Courts have been brought to clarity and thereby have paved way for the elaborative discussion on the relief (s) by stage for assessing the same.

1. Damages as a Remedy for Breach of Contract in India

The most common remedy for a breach of contract are damages, which are used to reimburse the non-breaching party for losses related to the breach.



The well-known decision of *Hadley v. Baxendale* (1854) holds that the losses must result naturally from the breach and be foreseeable. Indian courts are following the same even while awarding compensation. The law of damages is embodied in Section 73 of the Contract Act, containing the principle that where defendant, in breach of a contract, has failed to fulfill any of its terms, he shall make good the loss which the plaintiff has thereby suffered, subject to the provision that the claimant must be indemnified for the actual loss which he has sustained as a result of the breach but he cannot be indemnified for such losses as are not certain to be suffered. And even more particularly, those articles that bridge the gaps created between the various articles of the UCC and by which a team- obtaining contract - expressing not only the prayers of the contract creator, but also the parrot like data inputs and the software add-in selection made -is bound to begins its win-win adventure (74CCA). In contracts, punitive damages are quite rare, but can be granted for fraud or gross negligence. Some of the considerations in making a claim are mitigation of loss, the burden of proving the wrong-doing, and the calculation of damages according to precedent. Veering into the Indian scenario, even in India one notices from reported cases that the court leans more and more towards the final inducement, justice, and the very clear picture of legal obligation, and not just a theoretical one.

2. Specific Performance and Injunctions in Breach of Contract Cases

Specific performance: an equitable remedy that forces a party to perform its contractual duties, among others. Damages focus on financial restitution, whereas specific performance compels the actual performance of the agreement. This remedy is governed by the Specific Relief Act, 1963, which is available mainly where damages are not sufficient relief. The Indian courts can order specific performance for contracts involving unique goods, immovable property, and commercial contracts in situations extremely that damages would be an inadequate remedy. The problem is that this remedy is not mandatory, and courts take into account such factors as feasibility, good faith, and preparedness of the

claimant to do their side of the deal. The Specific Relief Act was amended in 2018 and the said amendment made specific performance a more enforceable remedy unlike the discretionary remedy it was in some cases. Another type of remedy, called an injunction, orders one or both parties not do something that violates contractual obligations. In a nutshell, the Civil Procedure Code and the Specific Relief Act empower courts to issue temporary and permanent injunctions to preserve the status quo and prevent irreparable loss. This portion of the article does so by reflecting on a number of salient cases and judicial interpretations that have shaped how these remedies had evolved.

3. Alternative Dispute Resolution (ADR) and Contract Enforcement in India

Arbitration, mediation, and conciliation are all alternative dispute resolution (ADR) mechanisms widely recognized for their significance in resolving contractual disputes. The Arbitration and Conciliation Act, 1996 (Adopted in line with UNCITRAL Model Law) has been a strategic link in making India an arbitration-friendly jurisdiction. Commercial arbitration is governed by a well-defined legal framework and the principle of minimal judicial intervention has been repeatedly reiterated by the Hon'ble Supreme Court Under the Mediation is being promoted for amicable settlement of disputes even in respect of contracts. India has also been promoting the idea of Lok Adalat's, staged gatherings to settle the dispute quickly, particularly in consumer and small business contract disputes, within its legal system. India suffers from challenges in contract enforcement, such as court delays, high litigation costs, and procedural complexities. The government also aims to provide a timely legal framework through legal reforms and fast-track courts, and even the Digital Courts initiative which is paving the way for a smoother and faster legal ecosystem. This part discusses the institution of ADR in contract disputes, relevant legislative provisions, important arbitration judgments and policy changes relevant to contractual remedies in India

UNIT 1.3 ESSENTIAL, KINDS OF AGENTS, RIGHTS & DUTIES OF AGENTS

1.3.1 Law of Agency

1. Definition & Essentials

Under the Indian Contract Act, 1872, the Law of Agency governs the area in India, and here agency is defined as a fiduciary relationship where one party called the principal, grants another party called agent the power to act on behalf of the principal in matters pertaining to contracts or the law. When an agent acts within their authority, they legally obligate the principal. According to representation, an agent stands in the shoes of the principal in dealings with third persons — hence the agent is like an extension of the principal.

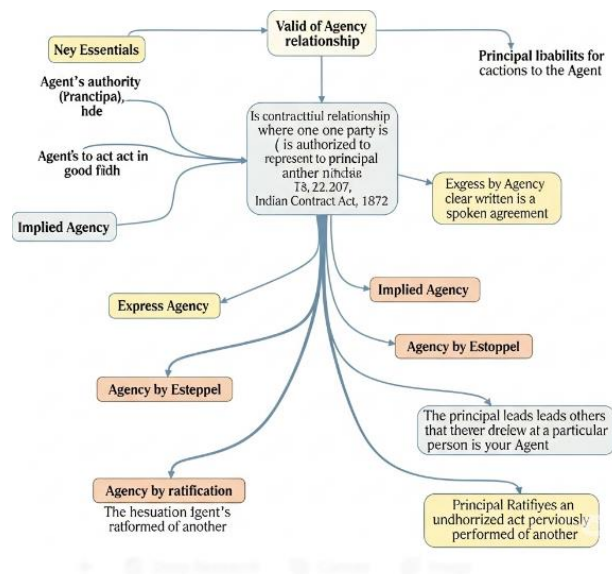


Figure 1.3.1: Law of Agency

The prerequisites of an apt agency are: (i) Principal-agent relation, signifying that an agent needs to work for the principal and not himself; (ii) Soundness of mind of the principal Section 183 of the Indian Contract Act discusses that a principal needs to be of sound mind and at least of an age of majority; (iii) Consent of both

parties, implicit (implied) or explicit (through a contract) (iv) Business of lawful nature that signals that the agency is for legal purposes and is not immoral; and (v) Authority that is granted can be general (all-encompassing) or unique (limited). Agency may arise in several forms: express agreement, where a formal contract exists between principal and agent; implied agency, which is expressed via conduct, relationship or necessity (e.g., a wife buying household supplies for her husband); agency by estoppel, when a principal leads a third party to believe another individual is their agent; and agency by ratification, where a principal permits another person to act on their behalf. This legal relationship is fundamental in commercial transactions, employment contracts, and business operations, which is why in Indian contract law, this concept is indispensable.

2. Kinds of Agents

There are different types of agents that broadly classified according to the - nature and extent of their authority also type of work performed. Roughly, agents can be general agents and special agents. General agent has the power to do anything in a general scope of a business or employment, like the manager of a firm. A special agent is appointed for a special purpose, like retaining an advocate for a case. Another aspect of agents is the division into mercantile agents (those who transact in the course of business) and non-mercantile agents (agents not engaging in a business activity). Following are some of the most common types of mercantile agents: (i) Broker: A broker negotiates contracts but does not own the goods; (ii) Factor: A factor has possession of the goods, and also the authority to sell them; (iii) Commission agent: A commission agent buys or sells goods on behalf of the principal and receives a commission for the same; (iv) Auctioneer: An auctioneer sells the goods by public auction; and (v) Del Credere agent: A Del Credere agent not only sells the goods but also gives the guarantee to pay the amount from the buyer. A second key difference is between sub-agents and substituted agents. This is a situation in which a principal appoints an agent to fulfill the role of the agent, while still having the agent able, by the use of the agent, to focus on the sub-agent by either the agent giving orders to the



sub-agent directly or the agent giving instructions on how to manage their workload to the sub-agent. By contrast, a substituted agent is appointed with the consent of the principal and acts directly under the authority of the principal. Finally, co-agents may be designated when two or more agents act jointly or severally. These classifications of agents are essential to know because they allow us to assess the rights, duties, and liabilities of various kinds of agents in various commercial and legal transactions.

3. Rights & Duties of Agent and Principal

The principal – agent relationship is based on mutual rights and duties, so that each party can function smoothly and be legally accountable. As per hydrides a few existing rights of an agent are as followings: (i.) Right to remuneration – An agent is entitled to be paid for his services unless anything is agreed otherwise about the remuneration; (ii.) Right to indemnity – The principal is bound to compensate the agent for acts performed in course of carrying out of the agency, provided such acts are lawful; (iii.) Right to reimbursement – The agent can recover any the expenses incurred in the course of all duties performed in the same way; (iv.) Right to retain commission – An agent has the right to deduct his commission or expenses from the money received from the principal. An agent has multiple responsibilities to fulfill such as: (i) Duty to act with good faith; (ii) Duty to follow instructions; (iii) Duty of reasonable care and skill; (iv) Duty to avoid conflict of interest; and (v) Duty to account. This right allows the party who entered the agreement to request that the agent perform the duties as discussed, as well as allow the principal to claim damages for breach such as revocation of their authority. Some of the principal's duties consist of the payment of remuneration agreed upon, and indemnifying the agent against lawful acts, and not unreasonably revoking authority. Consequences for Breach of In the event that either party fails to fulfill its obligations under the contract, the non-breaching party may be entitled to seek remedies, including damages, loss of agency rights, or liability for breach of contract. These rights and responsibilities help make sure that the agency relationship is just, open, and legally enforceable.



4. Creation & Termination of Agency

Exploring the Agency Relationship: Creation, Varieties, and Termination

The principle and agency relationship is one of the basic foundation of law in this modern society of commerce and personal dealings. This proxy-based relationship allows entities to scale up and to perform tasks collectively, by acting in the name of others. The nuances of how these relationships evolve, function, and terminate deserve close scrutiny to appreciate their far-reaching effects on running a business, potential legal obligations, and human relationships.

The Foundation of Agency Relationships

An agency relationship fundamentally arises when one party, called an agent, is granted the ability to act on behalf of another party, referred to as the principal. The conferral of the power of attorney establishes a fiduciary relationship in which the agent owes to the principal loyalty, care and obedience. Its uniqueness stems not from its relation but from its representation — the agent's power to bind the principal's legal position by doing anything authorized. Thousands upon thousands of commercial and private dealings are riddled with agency relationships. Businessmen make arrangements through corporate intermediaries, property owners hire a realtor to sell their land, authors allow a literary agent to represent their written work, and athletes direct sports agents to book their professional engagements. These varied uses are but manifestations of the same principle of delegated power and representative character which constitutes the relation.

The legal foundation of agency rests upon several interrelated concepts: authority, responsibility, and accountability. The principal grants authority to the agent, who assumes responsibility for exercising that authority in accordance with the principal's interests. Accountability mechanisms ensure the agent remains answerable for actions taken while representing the principal. This tripartite



structure maintains balance within the relationship while establishing clear parameters for third-party interactions.

Express Agency: The Direct Authorization Approach

Express authority is the simplest form of agency, where principal gives authority directly to agent. Such agency is hardly uncertain in its existence or scope since it results from the express, if tacit, agreement of the persons who find themselves so legally related. A manifestation of the consent to an agent for the principal to act on the latter's behalf for a third party most commonly results from a direct expression of the authority, whether in writing or orally. Typically, written expressions appear as agency agreement, power of attorney, engagement letter, or contract signifies the agent's authority and responsibilities. Oral statements, although perhaps less conclusive evidence of authority, may create an enforceable agency relationship if they make clear the principal's intention to approve representation. Imagine a homeowner who has signed an agreement allowing a broker to sell his or her property. For example, that express agency could take the form of a signed listing agreement setting forth terms of commissions scheme, marketing obligations, scope for negotiation, and duration terms, among other things. This is an explicit agreement that leaves little room for doubt as to the authority of the agent to act on behalf of the owner in the disposition of property, and gives everyone--agents and prospective buyers alike--a bit more peace of mind. As a rule, the express authority which an agent has depends entirely upon the agreement or arrangement which has been made between him and his principal. Some principal will authorize widely across the enterprise, while other will be very restrictive in what they allow. Specific enumeration of limits is particularly useful in complicated deals, providing positive guidance with respect to how far the scope of authority goes, so as to avoid misconceptions and disputes. The amount of documentation required for agent authorisation depends upon the size of the transaction carried out and the local regulatory environment. High-value transactions



typically warrant comprehensive written agreements specifying authority parameters, compensation arrangements, duration terms, and termination conditions.

Implied Agency: Authority Through Conduct and Circumstance

While express agency is overt, implied agency is based upon acts, conduct, and reasonable inferences instead of words (oral or written). Such agency is created when the principal, by his or her conduct, indicates to a third party that the third party has been given authority to act on his or her behalf even though no written partnership agreement exists. Many expressions of an implied agency can be observed in commerce. Under legal agency law formation of an agency relationship is simple, with the magic words "I appoint you my agent" crossing the lips of one corporate employee to another. The employment status is assumed to create a general ubiquitous implied authority to do the kinds of things ordinarily done by employees in their respective jobs, even without particularized directions for each act. Imagine a retail store in which the sales employees assist the preorder, payment, and return of items without receiving detailed guidance for every transaction. Such authority is implied from the employment relationship and the job description, in the interest of efficiently running the business without having to get express approval for every customer contact. An implied agency based on the historical dealings of the parties may be created where the course of dealings is clear and unequivocal so that it can be said that the parties must be acting with the consent of the principal under the apparent authority of an agent. Even if there is no express agreement, if an agent is usually permitted to negotiate on behalf of the principal and such activity takes place without protestation, the pattern could create implied authority. Household relationships also generate implied agency in domestic transactions, also (especially) between spouses or partners who share a pool of resources. The limits of implied agency are based largely upon reasonable construction of the facts and conduct. Courts typically evaluate factors such as relationship history, industry standards, position responsibilities, and contextual necessities



when determining whether implied agency exists and what scope of authority it encompasses. This situational construal of implied agency renders its forms more flexible but also more ambiguous than the express versions. Proof of an implied agency frequently comes from the conduct of the parties, testimony of the witness, communications between them, and business transactions. Courts use these evidentiary factors when contentious questions on the existence of implied authority arise in order to assess the reaction of a reasonable person who would believe that authority was granted by reason of the conduct and context of the principal's relationship.

Agency by Estoppel: Protection Through Representation

A particular variety of an agency derived through estoppel, an agency by estoppel, falls under that doctrine when a principal has indicated to a third-party that an individual is their agent when in reality none existed. This type of agency serves to protect third parties who are lulled into believing that apparent authority existed due to a principal's conduct or representation, even if no actual authority was possessed. Underlying the agency by estoppel doctrine is the policy that principals should not be allowed to disclaim responsibility for the representations they create. Equity will not suffer a principal to deny what he has caused or so materially induced others to believe, on the faith of which they have acted, where that denial would cause loss or prejudice to them. Imagine, that, for example, a person is always negotiating the contracts of a company and therefore the suppliers believe he has been given the authority. If suppliers rely on contracts entered into on this reasonable view, the business usually cannot then avoid liability by saying that the individual had no real authority. The act of the corporation raised the apparent authority, upon which others acted in good faith. The requisites to maintain a right of agency under the doctrine of ostensible agency are: (1) conduct that would have led a third person to believe that another person was the employer's agent, (2) reliance by the third person on the conduct, and (3) a change in position by the third person to their detriment. The third party must demonstrate that



they changed their position based on reasonable belief in the agent's authority, such as entering contracts, providing services, or delivering goods. Equitable agency applies primarily in favor of third persons rather than as a basis for relations between the principal and asserted agent. Though efficient controls of the principal over the agent's possible actions are the existence of an agent's possible breach of fiduciary duty under law, even though the relation of master and servant be not founded upon contract, and notwithstanding that a third person would never have known of the entered agency. This rule promotes commerce by allowing third parties to rely on the appearance of authority. Proof of agency by estoppel generally falls into the category of public representations, authorized statements, corporate structures, business cards, title descriptors, or other indicia of authority.

Agency by Necessity: Emergency Action and Protection

In contrast, agency by necessity comes into play when the agent acts in a situation of emergency, and under the circumstances it would be impossible to secure consent. Such agency is a legal fiction acknowledging that in cases of necessity there is sometimes need of someone to act, without previous warrant of appointment, to prevent injury or loss. Implicit Authority by Necessity For agency by necessity to apply, the following circumstances will generally need to be present: (i) a real emergency, including the inability to communicate with the principal; (ii) acts performed for the benefit of the principal and not the agent; (iii) reasonably moderately and necessary conduct; and (iv) obtaining authorization in a timely fashion through ordinary means is not possible. Classical cases of agency by necessity were provided historically by the law of seaborne commerce ², where a ship-captain may be required to decide what to do with a perishable cargo when his vessel needs emergency repairs at a distant port. With no cargo owners to communicate with, skippers sometimes sold perishables before they could spoil to preserve the owners' investment. Modern applications might include emergency medical decisions for incapacitated individuals or business crisis management when leadership remains



unreachable. The reach of agency by necessity does not exceed what is necessary to address the immediate emergency. It is this restriction on interpretation that narrows the possibilities and limits the likelihood that the rule that the power of agency is generally consensual may be undermined. When contact with the principal is feasible, exigency authority ends and regular chains of command are reestablished. And judicial review of necessity-based agency by necessity claims generally requires close scrutiny of necessity factors. Factors considered by the Courts were, if an actual emergency occurred, if communication with the principal was actually impossible, if the action taken was not the act of a reasonable person acting in the principal's interests, and whether the action remained proportionate to the emergency. Agency as necessity is also a balancing of autonomy respecting agency with the pragmatic acknowledgment that in an emergency there can be immediate representation. This doctrine only extends some protection to good faith attempts to secure the interests of others in cases of true emergencies, and does not eliminate traditional principles of representative action.

Agency by Ratification: Retroactive Authorization

Affirmative Consents provide a means by which principals reversal (action) prior approval. Such delegation of agency allows principals to take the good from unauthorized actions and still maintain a grip on which actions they want to end up as their own. "The ratification of an act has the effect of authorizing an act which was previously unauthorized, for which ratification is a substitute for original authority. This approval may be express, e.g., oral or written, or it may be implied from conduct indicating authority to do the act and knowing acquiescence in its performance.

Several conditions typically apply for effective ratification: (1) the person performing the action must have purported to act as an agent for the principal, even without authority; (2) the principal must possess capacity to authorize the



action both when it occurred and when ratification takes place; (3) the principal must have full knowledge of material facts surrounding the action; and (4) the principal must approve the entire action rather than selectively ratifying favorable portions. Imagine that an employee signs a supplier agreement that exceeds his or her signing limits. Upon becoming aware of the unauthorized contract, those in control could ratify what was done, either by expressly affirming the contract or by accepting the benefits of the contract and allowing it to be performed. This ratification changes the unauthorized act to an authorized one and the legal operation of such is to set the original deed back to inhabitants in time. The same temporal factor must be weighed in determining the validity of ratification. Notice of Ratification In general, ratification is not effective after third parties have terminated their side of the bargain or circumstance has materially changed; and, it must happen in a reasonable time period. Furthermore, certain performance could be rendered impossible of performance if after the lapse of time other events have occurred that make the transaction impossible of completion, or if the rights of third parties would be inequitably affected. The effect of valid ratification is to give legal sanction to the previously unauthorized act as if it were initially authorized.

Termination by Mutual Agreement: Consensual Dissolution

Agency relations are often terminated by mutual consent between the principal and the agent. It is this consensual method of termination that is usually the simplest and least disruptive method of termination as parties are able to negotiate terms under which the termination will occur and to protect their own interests. Voluntary termination may also happen when the agency's objectives are achieved, when there is reformation of business policies, when personal situations change, or when parties are aware that continuing with the relationship is no longer in their best interest. The reciprocity aspect guarantees that both sides contribute to the demise of the agreement, rather than succumbing to a unilateral end. Documentation practices for mutual termination typically involve



written agreements specifying effective dates, transitional responsibilities, final compensation arrangements, confidentiality obligations, and liability limitations. These official dissolution papers offer a clearer path towards relationship termination and also set out the terms for any future duties which must continue post dissolution. There are a number of practical matters that need to be addressed during termination by mutual consent. Subscriber notification and similar requirements frequently come into play, especially in professional service applications, where subscribers had longstanding relationships with particular agents. Handover protocols may relate to pending transactions, work-in-progress completion, and a transfer of knowledge to successor representatives. Final financial reconciliation generally includes: commission payments, Expense Reimbursement, and Compensation. From a risk management standpoint, mutual termination agreements often contain explicit terms about post termination obligations, non-solicitation restrictions, confidentiality covenants, and dispute resolution processes. These “forward focus” provisions avoid the possibility of disputes in the future while creating mechanisms for dealing with any issues that may arise following a formal disbandment. In comparison to one-sided methods of termination, mutual termination still has its benefits such as less conflict possibilities, negotiated terms on transition, tailored time of dissolution and possibility of relationship preservation. These advantages render mutual termination the preferred method of dissolution whenever the facts allow for mutually agreed to termination.

Revocation by Principal: Unilateral Withdrawal of Authority

Principals have the power to terminate agency at any time, consistent with the fact that agency is voluntary. This revocation provision enables the principal to revoke the representation when agents cease being utilitarian or when there's a change in circumstances requiring an alternative method of representation. Several methods exist for communicating revocation: direct notification to the agent through written or



verbal means, public announcements when third parties routinely interact with the agent, return of formal authorization documents such as powers of attorney, and notification to relevant regulatory bodies when applicable. Voiding revocation usually needs the clear articulation that indicates lack of ambiguity, of the intention to terminate the power. Revocation rights are NOT absolute but their reach is limited under key constraints. One additional issue when the agent had an interest, was that agency combined with interest prevents unilateral revocation, unless the agent's interest was attended to. Contractual limitations may specify locks-in periods, notice provisions or termination fees which also influence the rights of revocation. Revocation is sometimes limited by statutory protection in special cases (power of attorney, irrevocable proxy), too. Revocation effectiveness is subject significantly to timing considerations. Revocation is effective as to the agent's actual authority immediately, but apparent authority as to third parties may continue to exist until the third party has notice of the revocation. As a result, this timing difference may create periods of exposure in which principals are held accountable for acts that third parties can reasonably assume are within the scope of the agent's continuing authority.

From a risk perspective, having formal revocation documentation offers evidentiary protection in the even that there are subsequent disputes as to the timing and/or effectiveness of termination. Revocation in writing, delivery receipt for publication announcements or notice by third parties are documentary evidence that the principal has expressed its clear will to end the power of attorney decision in writing, delivery confirmation record, Evidence that the principal has made its will in question terminating authority. The effects of revocation are typically more than mere loss of power. Financial considerations can include penalties for early termination, commissions for unfinished work, or remuneration for the job preparation. Attention to relationship implications can include reputational effects, difficulty maintaining a business-as-usual relationship or client transition complexity which warrant consideration of these issues before deciding to exercise the right of revocation.



Renunciation by Agent: Withdrawal from Representation: Agents usually have the moral power to disclaim their status as an agent by unilaterally terminating the relationship. This waiver does not involve any of the former concerns. It is grounded in the voluntary nature of agency contracts and is designed to prevent the potential for involuntary servitude that could result from a forced continuation of the agency relationship. Sufficient notice to the principal is generally necessary for proper renunciation in order to enable the principal to obtain new counsel and handle transition concerns. What is “reasonable” notice depends on the relationship in question, including the complexity of the transaction, the availability of a replacement, seasonal factors and the extent to which notice would cause injury. There are many legitimate reasons for which the renunciation of an agent is most common, such as a conflict of interests growth, the enlargement of the field of an agreed commission or a principal’s misbehaviour/ illegal instructions, disagreement as to the quantum or the payment of commission, health or pension considerations, or a decision made by a firm to stop trading and so forth. Agents typically would not be obligated to explain their withdrawal of the offer, but in the context of professional morality there are occasions where there should be valid reason(s). Methods of renunciation must be set up to include a breakup that doesn’t leave any loose ends hanging around. A written notice is the documentary evidence of the actual time and the intent to terminate; and an effective date is the specified transition point. The return of property, the transfer of documents and client notification are frequently associated with formal renunciation letters. Some legal or ethical responsibilities may survive despite the occurrence of renunciation. The duty of confidentiality normally survives the termination of a relationship and this can protect sensitive information that has been obtained during the course of the relationship. The duty of care may necessitate transitional aid to avoid client injury from the representation shift. If, after terminating the representation, a conflict of interest arises that precludes representation, a lawyer may not represent both clients in the collaborative or other matter. Risk management considerations for renouncing agents include documentation of termination reasons,



comprehensive transfer of client materials, clear financial reconciliation, thorough transition communication, and appropriate client notification.

Termination by Operation of Law: External Circumstance Effects

In addition to voluntary forms of termination, agency relationships may end by operation of law where continuing the agency becomes either impossible or legally inappropriate. It is those involuntary terminations, which will happen whether the parties want it or not when changes have occurred making continuation of the relationship impossible, that are at issue here. Death or disability of either the principal or agent generally causes agency authority to terminate in the natural course. Common law agency treats the power to act as representative as personal and non assignable so death is an automatic termination. The modern exceptions are in the case of durable powers of attorney, which are intended to survive even after incapacity, but these are specialized deviations from the normal rules. The occurrence of bankruptcy or insolvency is a frequent cause of agency termination, especially if a party to the transaction loses contractual capacity or the subject matter becomes impossible. Although bankruptcy by its nature doesn't necessarily end every agency relationship per se, it often changes enough facts surrounding the relationship to make its continuation untenable or subject to approval by someone else, like a bankruptcy trustee. That destroys the subject matter and with it the agency, naturally, ending the relationship. Where an agent is authorized to sell certain property, and the property sold is so described that it may be severed from the mass of property of the same kind specified for sale, and such property has been destroyed by an act of God or human agency, the reason for which the sale and authorization to sell existed, is at an end as to the destroyed article.

Legal Implications of Improper Agency Termination: Relationships can have big legal consequences; especially when termination tactics run afoul of contractual terms, fiduciary duties or statutory obligations. These implications



warrant careful consideration before initiating termination processes, regardless of which party initiates dissolution. Agency contracts often contain provisions on notices, terms for termination, penalties and on-going obligations after termination of the relationship. These breaches of contractual requirements may be grounds for breach of contract claims for which damages flow even if a party otherwise seems to have a legitimate reason to terminate. In agency situations that are analogous to employment, claims of wrongful termination do occasionally occur. Where agency agreements create quasi-employment provisos, for example of exclusivity and a fee structure, and protections on termination, agents could bring claims akin to workplace-based wrongful termination claims about unfair dismissal scenarios. Interference with existing or prospective agency interest is possible if a third party wrongfully persuades an agent to terminate. Competitors that intentionally disrupt the homebuyer-outfit relationship will still be able to be potentially liable for tortious interference, especially if they are creating contractual or relationship breaches by improper means. Fiduciary breaches often arise in tandem with inappropriate termination of employees. The obligation of good faith applies to terminations, including frankness about reasons for termination and fair treatment of the termination process. If a termination is motivated by improper reasons, such as running away from the commission or usurping the grant, it may be considered a breach of fiduciary duties even when technical termination rights exist. It is not uncommon for abuses of process to accompany agency terminations in industries subject to regulation. Meanwhile, it is not uncommon for the termination of an insurance agent, the dismissal of a real estate broker, the removal of a securities rep, and other such regulated relationship terminations to involve statutory protocols designed to protect the public and ensure the integrity of a market. Non-compliance with these requirements could possibly expose the producer or handler to regulatory sanctions as well as private claims for damages. Damages for wrongful termination generally consist in loss of expectancy—what the injured party would have expected if the relationship had continued as it should have. These calculations might



include lost commissions, preparation expenses, opportunity costs, and consequential damages flowing from abrupt termination. Some jurisdictions also recognize reputational damages when improper termination affects professional standing.

Structural Safeguards for Agency Relationship Management

A complete successful program requires structural protection for agency relationships on the back side as well. These protective measures serve to minimize disputes, demarcation of power prerogatives, and termination procedures for parties' interest during relationship life cycle. Detailed written contracts offer early protection by defining authority limits, compensation formulas, performance measures, confidentiality obligations, and termination steps. These written frameworks provide distinct points of reference when disputes arise about scope of authority or the right to terminate. Periodic review of relationships grants the opportunity to consider fitness-for-purpose authority, satisfaction with performance, appropriateness of compensation, and the extent to which the interests of both parties remain congruent with one another. These premeditated reviews provide an opportunity to rectify issues that could potentially rise to the level of terminating an employment relationship and document relationship history that can be used in later disputed issues.

Clear authority documentation also discourages disputes over representation powers, especially in third-party defence. Official delegations of authority, delegation letters, POAs and job descriptions clarify what falls within the scope of authority, so that no one in the agency is quickly confused. There are structured processes that do not allow for compromise in the way the relationship is conducted regardless of why it is being terminated, in the form of formal termination procedures. These protocols usually involve notice provisions, transitional duties, document handovers, client communications and financial reconciliations. Standardized approaches reduce termination friction while ensuring consistent treatment across similar relationships.



ADR provisions in agency agreements can promote settlement without litigation, to which a conflict arises. Requirements for mediation, arbitration provisions and escalation procedures offer channelized mechanisms by which disputes, including those relating to termination, can be dealt with without immediately involving the courts. The succession planning tools facilitate the smooth transfer of ownership when termination is the result of unforeseen events such as death or disability. Successor Designation; Temporary Authority; and Emergency Protocol allow for continuation of operations, representation and work product during times of changeover.

Industry-Specific Agency Considerations: It was found that the management of the agency relationships differed from one industry to the next with industry-dependent practices for specific sectoral requirements. The differences are due to the rules and traditions in the different regulatory environments, differences in risk between the industries, and different characteristics of the transactions in the different domains. The business of real estate practice is unique, and there's no explanation whatsoever for the not yet over-analyzed fact that those real estate business people are invariably able to be inside, let's call it the car, with the prospective target of such is a so-called real estate congress representing g/l, b/b. Listing contracts generally set forth exclusive representation time periods and termination rights, while protection periods and clauses can prolong commission entitlement beyond a formal date for the termination of listing. Creation and dissolution are subject to certain rules designed to protect consumers and are codified in regulations. Insurance agency relationships involve product-specific authority restrictions, carrier appointment needs, and questions of book-of-business ownership. Termination frequently includes complex computations involving renewing commissions, policyholder notice, and continuing service duty. Independent Agent vs. Captive Agent Status makes a big difference when it comes to termination rights in, and limitations on the activities of, sales agents following the end of the relationship. Investment advisory arrangement fiduciary duty standards, special disclosure requirements, and fee structures are



intertwined. Termination typically triggers account transfer processes, fee calculation reconciliations, and regulatory reporting requirements. Ongoing fiduciary obligations sometimes extend beyond formal relationship conclusion, particularly regarding information confidentiality. And one group of lawyers have unique ethical responsibilities, attorney-client privilege and the need for court-improvement for certain terminations. Exit sometimes is sensitive that involve the jurisdiction's approval if there is an ongoing litigation, and ethical rules require adequate protection of the client interests during transference. Fee fights can muddy wrenching break-ups, leading in some cases to arbitration, or orders to divide fees. The healthcare sector is fraught with its own set of privacy challenges, continuity of care thresholds, and special notice rules. It also means patient relocation protocols, managing records and continuity of care during transitions. Many are designed to ensure patient care, such as mandatory notification in advance of treatment and continuity provisions. Permanent relationship with recruitment firms are typical with: payment options, candidate ownership, niche contract terms. A standard part of termination is figuring out entitlements for placements that were started prior to termination but completed afterwards. Standard protocols in the industry tend to dictate acceptable notice and transition period parameters.

International Variation in Agency Principles

There are substantial differences in agency principles between jurisdictions and also between legal systems and the commercial world. These international variations also impact formation processes and dissolutions mechanisms, so that they must be carefully considered in cross-border relationship management. In the common law tradition, the distinction between actual and apparent authority is emphasized, and the principles of agency by estoppel and ratification are well-developed in most common law countries. These systems generally favor flexible agency creation through conduct and circumstance interpretation, while recognizing traditional termination triggers such as death, incapacity, and revocation.



Codified rules of agency formation and termination are frequently found to hold a position of pre-eminence in civil law systems, many of which exhibit comparatively more stringent requirements of formality with respect to certain types of agency. In many jurisdictions representative relationships are regulated by mandates, and these jurisdictions have detailed codes relating to the form of creation or termination of such arrangements that contrast sharply with the common law. Interest and agency is handled differently internationally, with some giving strong protections to the innocent party being able to revoke while others being ambiguous effects. These distinctions are important to termination rights when brokers have pecuniary interests in transaction results or in dispositions of the subject matter. Religious legal systems also embrace unique agency principles from religious sources, which may be limited to particular models, such as the Islamic law wakalah idea. These models can differ in terms of representation activities they allow, procedures for termination, and obligations after the relationship has been severed. Regional harmonization initiatives, like the Commercial Agents Directive in the European Union, for example, sometimes set forth cross-border standard governing a particular form of agency. These measures usually concern such matters as protection of the agent, notice of/criteria for terminations, and the calculus of compensation, thereby achieving regional harmonisation, despite the variations between the underlying legal systems. The issues of choice of law are more relevant when an agency relationship is being terminated cross-border. Different attitudes to notice periods, compensation on termination, post-termination restrictions and procedural formats for dissolution contribute to a tapestry of challenging law that demands careful handling when winding-up international relationships.

Technological Impacts on Modern Agency Management

Technological evolution continues transforming agency relationship management, creating both new possibilities and challenges regarding creation documentation, authority verification, and termination processes. These technological impacts



warrant consideration when establishing contemporary agency management frameworks.

Electronic documents are replacing paper agreements with greater frequency, and this has re-opened questions about the validity of electronic signatures, good electronic record-keeping, and standards for proof. Tele-creation tools such as digital access tools, digital powers of attorney, virtual consent mechanisms will develop as counterparts to commonplace legal recognition. With remote agency, agency relationships are no longer bound by geography raising jurisdictional issues as well as supervision difficulties. Virtual representation structures often cut across classic authority lines and create concerns regarding jurisdictional matters and termination mechanisms. Agency verification problem could have solutions in blockchain applications applying distributed ledger methods. If smart contracts were used with principles of agency, some termination triggers could potentially be automated and, in any case, information can be stored on the blockchain about when each grant of, and revocation of, authority was made, even if the establishment of smart contracts is still developing at law.

AI is now providing agency-like functions in automated decision systems, raising issues of authority (attribution) and abandonment. AI agents and recommendation “machines”, or AI-based trading bots, disrupt the classical understanding of agency, and possibly its grounds for termination. Data privacy concerns have become a significant part of the agency termination process, specifically as it pertains to continuing obligations with respect to pre-existing data. The more recent and growing prevalence of data that must be retained and destroyed, and which the provider has continuing obligation of confidentiality from a legal perspective beyond the termination of the formal relationship, require termination protocols to address such data retention and information destruction, and continuing obligations of confidentiality. Identity technology Roadmaps are still enhancing forms of authentication for both origination and termination. Biometric verification, multi-factor authentication, and digital identity systems enhance confidence regarding both



authorization grants and revocation communications, particularly in remote relationship contexts.

Balancing Flexibility and Protection in Agency Relationships

Agency relations stand at the heart of current commerce, business and social relations, allowing representation that transcends individual and corporate capacities. The array of forming processes and endgames considered in the course of this exploration reveal the flexible adaptability of agency as a legal form, which can be deployed to serve such radically different purposes as fit the circumstances of each case along both the lines of its formation and its dissolution. This flexibility has practical value because it can enable relationship formats to be tailored to the needs of particular contexts, while also ensuring the degree of protection required for the interests of all those concerned. (Express agency gives clear and definite authority to large transactions, implied agency affords convenient facility for minor things. This is measured by reference to the test of agency by estoppel: reasonable reliance on apparent authority, and the doctrine of agency by necessity: necessity of an agent when the principal cannot communicate. Ratification permits the ratified act to be benefit im et tamben (to the benefit and to the hindrance) of the unauthorized agent, while retaining principal control over the outcomes of representation. In the same way, it also gives the right means of relationship ending, by provisions depending on each case. When the will to terminate is shared, consensual dissolution is accorded between the parties, and when the will to terminate is unilateral, unilateral remedies exist. Operation of law termination acknowledges where the externality makes continuation not feasible or not reasonable and procedural protections guard against dissolving 'wrong tactics'. In the end, the continuing benefit of agency law is its equipoised treatment of representation relationships -- a description that gives us enough flexibility for whatever our lawyering should be, but has it rings of protective settings that help us to find rights and duties and process.



SELF ASSESMENT QUESTIONS

MCQ's – M I

1. Ethics primarily deals with:
 - a) What is legal
 - b) What is right and wrong
 - c) Profit maximization
 - d) Religious practices
2. The primary objective of ethics is to:
 - a) Maximize business profits
 - b) Provide moral guidelines
 - c) Increase market share
 - d) Promote competition
3. Business ethics focuses on:
 - a) Socially responsible behavior of business
 - b) Purely economic goals
 - c) Only legal compliance
 - d) None of the above
4. Which is **NOT** a source of ethics?
 - a) Religion
 - b) Law
 - c) Personal hobbies
 - d) Culture
5. Values represent:
 - a) Personal beliefs of what is important
 - b) Firm rules enforced by the law
 - c) Market strategies
 - d) None of the above
6. Which ethical theory focuses on **consequences of actions**?
 - a) Deontological ethics
 - b) Teleological ethics
 - c) Kantian ethics
 - d) Natural ethics
7. Kantian ethics is mainly based on:
 - a) Utility
 - b) Duty and universal moral laws
 - c) Emotional responses
 - d) Profit considerations

ASSESSMENT QUESTIONS

Short Questions:

1. Define a contract and list its essentials.
2. What are the types of contracts?
3. Define an offer and list its essentials.
4. What is the Doctrine of Privity of Contract?
5. Explain the different types of consideration.
6. What is a quasi-contract?
7. What is free consent? Explain its elements.
8. Explain the concept of termination of a contract.
9. Define an agent. What are the rights of an agent?
10. How can an agency be terminated?

1.4.2 Long Questions:

1. Discuss the essentials of a valid contract.
2. Describe the principles governing offer and acceptance.
3. Explain the kinds of consideration and give chat of each type.
4. Explain the doctrine of free consent with illustrations.
5. Discuss the agent's and principal's rights and duties.



MODULE I - GLOSSARY

1. **Contract** – A legally binding agreement between two or more parties that is enforceable by law.
2. **Offer** – A proposal by one party to another indicating a willingness to enter into a contract on certain terms.
3. **Acceptance** – The unqualified agreement to the terms of an offer, creating a binding contract.
4. **Consideration** – Something of value exchanged between parties in a contract, essential for its validity.
5. **Free Consent** – Consent given without coercion, undue influence, fraud, misrepresentation, or mistake.
6. **Coercion** – Forcing a party to enter into a contract through threats or illegal pressure.
7. **Undue Influence** – Unfair use of one's position of power over another to gain agreement to a contract.
8. **Fraud** – Intentional deception to induce another party to enter into a contract.
9. **Misrepresentation** – False statement made innocently that induces another to enter into a contract.
10. **Mistake** – An incorrect belief about something at the time of contract formation, affecting its validity.
11. **Void Contract** – A contract that is not legally enforceable from the beginning.
12. **Voidable Contract** – A valid contract that may be legally rejected by one of the parties.
13. **Unenforceable Contract** – A valid contract that cannot be enforced due to legal technicalities.
14. **Minor** – A person under the age of majority who lacks the legal capacity to contract.
15. **Unsound Mind** – A person incapable of understanding the nature and consequences of a contract due to mental incapacity.
16. **Quasi-Contract** – A legal obligation imposed to prevent unjust enrichment, even without a formal agreement.
17. **Legality of Object** – The requirement that a contract's purpose must not be illegal or against public policy.
18. **Performance of Contract** – Fulfillment of contractual obligations as agreed by the parties.
19. **Termination of Contract** – The ending of a contractual relationship due to completion, breach, mutual agreement, or other legal reasons.
20. **Breach of Contract** – Failure to perform contractual obligations, leading to legal remedies.



- 21. **Remedies** – Legal solutions available to an aggrieved party in case of contract breach (e.g., damages, specific performance).
- 22. **Agency** – A relationship in which one person (the agent) is authorized to act on behalf of another (the principal).
- 23. **Agent** – A person authorized to act on behalf of another in a legal or business matter.
- 24. **Principal** – The person who authorizes an agent to act on their behalf.
- 25. **Authority** – The power given to an agent by the principal to act in specific capacities.
- 26. **Express Agency** – Agency created through spoken or written words.
- 27. **Implied Agency** – Agency formed through the conduct or situation of the parties.
- 28. **Termination of Agency** – The end of an agency relationship by act of the parties or operation of law (e.g., completion, revocation, death).



MODULE I: SUMMARY

The **Law of Contract** is a fundamental part of commercial and civil law, governing agreements that create legal obligations between parties. A contract is defined as an agreement enforceable by law, and for a contract to be valid, certain essential elements must be present. These include an offer and its acceptance, lawful consideration, the intention to create legal relations, capacity of parties, free consent, a lawful object, and certainty of terms. Each of these components must align with legal standards to ensure that the agreement is recognized by the courts. The classification of contracts varies, ranging from valid, void, and voidable, to illegal and unenforceable agreements, depending on their compliance with legal conditions.

A valid offer must be definite and communicated clearly, and acceptance must be absolute and unqualified. The concept of consideration is central, referring to something of value exchanged between the parties. Although consideration is essential, certain exceptions exist under Indian Contract Law where contracts may still be valid without it, particularly in cases involving natural love and affection or past services. The **Doctrine of Privity of Contract** restricts enforcement to parties directly involved in the contract, though modern judicial interpretations have introduced exceptions for beneficiaries in specific scenarios.

The **capacity to contract** is another vital area of concern. Not all individuals can enter into a contract. Minors, persons of unsound mind, and individuals disqualified by law (such as alien enemies or insolvents) are deemed incapable of entering valid contracts. Any agreement made by such persons is considered void. Legal capacity ensures fairness and protects vulnerable individuals from exploitation or harm through legally binding agreements. Further, **free consent** is essential in contract formation. Consent obtained through coercion, undue influence, fraud, misrepresentation, or mistake renders the agreement voidable or void. This area of law seeks to uphold voluntary and informed participation in contractual dealings.

Another notable area in contract law includes **quasi-contracts**, which are obligations created not by agreement but by law. These arise in situations where one party is unjustly enriched at the expense of another, such as in cases of receiving goods or services without an agreement. The law imposes a duty to return the benefit or compensate the other party. Legality of object and consideration also plays a crucial role; any agreement with an illegal or immoral purpose is void.

Contracts also entail obligations regarding **performance**, which refers to the actual execution of the terms by the concerned parties. When contracts are not fulfilled as agreed, legal remedies come into play. These include damages, specific performance, injunction, and rescission. Similarly, a contract may come to an end through performance, agreement, breach, impossibility, or lapse of time. Understanding these provisions helps in determining the legal outcomes when a contract is breached or terminated.

The **Law of Agency**, another core aspect of this module, governs relationships where one party (the agent) is authorized to act on behalf of another (the principal). This relationship is vital in commercial dealings, especially where direct dealings by the principal are impractical. An agency may be created through express or implied agreements, ratification, or necessity. Agents perform tasks such as signing contracts, representing companies, and managing business transactions.



There are different **kinds of agents**, including general agents, special agents, and universal agents, each varying in the scope of authority they possess. Additionally, there are sub-agents, co-agents, and agents by necessity. Each type plays a specific role, determined by the nature and extent of authority granted by the principal. The **rights and duties** of both agents and principals are crucial to maintaining trust and accountability. Agents must act within their authority, maintain confidentiality, and perform tasks with due care and diligence. In return, principals must compensate agents for their services and indemnify them against liabilities incurred during lawful execution of their duties.

Finally, the creation and termination of the agency relationship have legal implications. An agency can be terminated by mutual agreement, revocation by the principal, renunciation by the agent, death or insanity of either party, or the completion of the assigned task. Understanding agency law ensures smooth delegation of responsibilities and reduces risks in commercial relationships.



Answer to multiple choices question (M - I)

- 1-b - What is right and wrong
- 2-b - Provide moral guidelines
- 3-a – Socially responsible behavior of business
- 4-c – Personal hobbies
- 5-a – Personal beliefs of what is important
- 6-b - Teleological ethics
- 7-b - Duty and universal moral laws



MODULE 2 NEGOTIABLE INSTRUMENTS ACT, 1881 & LAW OF PARTNERSHIP

Structure

Unit 2.1	Definition & Characteristics of Negotiable Instruments
Unit 2.2	Law of Partnership

OBJECTIVES

- Discuss the negotiable instruments and its essential features.
- Classify different kinds of negotiable instruments such as Promissory note, bill of exchange and cheques.
- Determine the parties to the negotiable instrument and their respective duties and liabilities.
- Explain the negotiation, presentment, discharge and dishonour of negotiable instruments.
- The concept of partnership and its nature: The following is the Partnership Definition: Partnership is an association between two or more persons to carry on as co-owners, a business for profit.
- How is a partnership firm formed? What are the legal formalities to form a partnership firm?
- Recognize active, sleeping, nominal, and minor partners.
- Describe the rights and obligations of partners in partnership firm.
- What is the registration process of partnership firm and its legal importance.
- Describe the different modes of dissolution of a firm and their effects.

UNIT 2.1 DEFINITION & CHARACTERISTICS OF NEGOTIABLE INSTRUMENTS

A negotiable instrument is essentially a written document that can operate like money. It usually takes the form of a promissory note, which is payable to the bearer on demand. The legal framework governing these instruments is outlined in the Negotiable Instruments Act, 1881. Such instruments play a vital role in trade by facilitating smooth financial transactions, minimizing reliance on physical cash, and enabling credit-based exchanges. For a document to qualify as a negotiable instrument, it must satisfy four key conditions: Transferability – Ownership of the instrument should be easily transferable from one person to another, either through delivery or endorsement. Unconditionality – The promise or order contained in the instrument must be absolute and not contingent upon any external factors. Certainty – The amount payable under the instrument must be clearly defined and fixed. Good faith acquisition – Anyone who acquires the instrument in good faith obtains valid title to it, even if a previous transfer involved a defect in the prior holder's title. Additionally, negotiable instruments benefit from certain legal presumptions. These include the presumption that the instrument was issued for consideration, that endorsements are valid, and that the signatures on the instrument are genuine.

2.1.1 Types Of Negotiable Instruments

There are three kinds of Negotiable instruments known under the Negotiable Instrument Act, 1881, which states, a Negotiable instrument, Promissory Note, Bill of Exchange or a Cheque. Each serves a particular purpose in financial transactions and has a different set of legal implications.

Promissory Notes: A promissory note is where one party (the maker) explicitly promises in writing to pay a specific sum of money to another party (the payee) or to the bearer of the

Instrument on demand or at a specified time. The main elements of a promissory note are:

- **Unconditional Promise:** The payment requirement must be unconditional.
- **Definiteness:** The sum to be paid should be clearly specified in numerical and in writing.
- **Parties Involved:** Parties Involved: The maker (issuer of the note) and the payee (receiver of the payment).
- **Written Format:** The instrument must be written and signed by the maker.
- **Legal Enforceability:** The note can be enforced legally in case of default

In business where credit is extended, promissory notes are often used. They act as a confirmation of money owed, giving the lender a legal basis to claim the agreed upon sum.

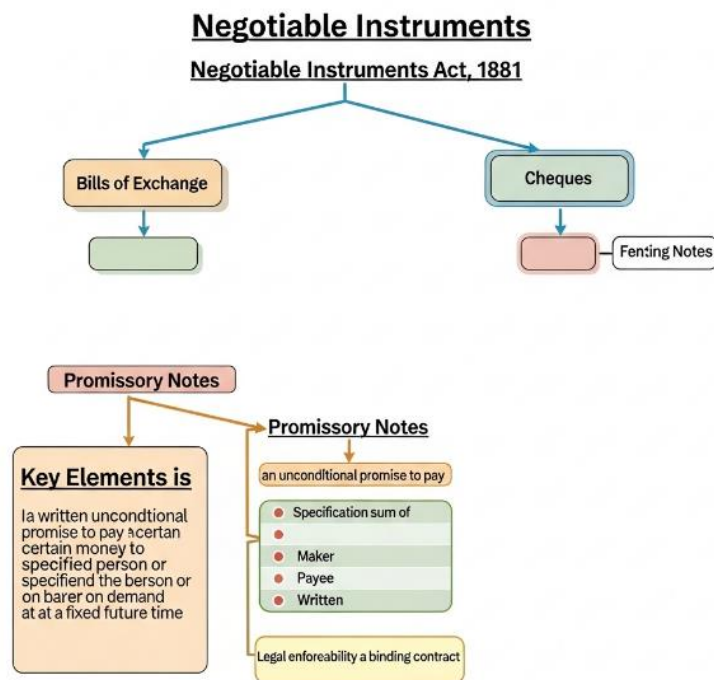


Figure 2.1.1: Negotiable Instruments

Bills of Exchange

Negotiable
Instruments
Act, 1881
& Law of
Partnership

With a bill of exchange there is a demand made by one (the drawer) upon another (the drawee), to pay a sum of money, whose payment is demanded by the drawer, to a third (the payee), either on demand or at a future date named in the bill. A bill of exchange has the following features:

- **Unconditional Order:** A bill of exchange is an order and not a promise as in case of a promissory note.
- **Drawer:** The drawer, drawee and the payee.
- **Date Due:** The invoice will also provide a date by which the payment must be made.

Transferability: Bills of exchange are negotiable and transferable freely. 03 Bills of Exchange are widely used by traders in both domestic and overseas transactions. They can be classified into two types - Inland Bills (which are payable in the country where it is drawn) and Foreign Bills (which are payable in another country). They can also be either demand bills or time bills.

Cheques

A cheque is essentially an instruction to a bank to pay on demand a fixed sum of money to the holder of the cheque. A cheque has the following elements:

- **Bank Instrument:** Unlike promissory notes and bills of exchange, a cheque is always drawn on a bank.
- **Three Parties:** That's right, you (the drawer, who has the account), the bank (the drawee), and the person or corporation (the payee) that will receive that payment.
- **Demand Payable :** Cheques depositable at 24 Cities and payable at : Cheques payable at 24 Cities need to be paid immediate.
- **Legal Protection:** The Act provides legal protection against bounced cheques due to insufficient balance.



Different types of cheques used in financial transactions may be broadly categorized under medicare portion a, b and d c. Bearer cheques are payable to the bearer, that is, payable to whoever presents the cheque for payment at the bank. It can only be cashed by a certain person or entity: Order checks are made payable to someone. Crossed cheques feature two crossed lines at the top left or right corner – this is an instruction that means the cheque can only be deposited directly into a bank account and cannot be cashed over the counter, adding a layer of security. Cheques are an extremely safe method of paying for business purchases since they can be enforced in law. If a cheque gets dishonoured i.e., returned unpaid due to insufficient funds, signature mismatch or any other reason, the issuer of the cheque can get into a lot of legal trouble, including fines and even jail, as per acts such as the Negotiable Instruments Act. This legal structure provides trust in transactions made by cheque, which are widely accepted as the most secure and widely used method of payment in personal and business transactions.

2.1.2 Parties - Negotiable Instrument

A negotiable instrument, is a black and white paper of an order, payment of a stated price of penny to a certain person or the bearer. It includes instruments such as promissory notes, bills of exchange, and cheques, and is largely governed by the NIA, 1881 in India. The ease with which such securities can be transferred is known as negotiability; the greater the ease, the most secure the instrument and the more liquid the asset. Parties to NI; Discuss the major party to a neg instrument, and describe their roles in its creation, transfer, and enforcement. Four main categories of parties to a negotiable instrument are involved with or without regard to the method of their involvement, including the drawee, drawer, payee, and endorser/endorsee, each of which has its own rights, obligations, and liabilities with respect to a negotiable instrument. The drawer is the person who makes or up draws negotiable instrument and is the one ordering the payment of certain amount to the



payee or to a bearer. Such as, it means directing the drawee (in case of cheque, the bank) to pay a certain sum. The drawer's check is primarily a way of verifying written amounts being paid. The liability of the drawer arises whenever the drawee dishonors the payment. 8 of 1881 has provided in section 93 that the drawer of a bill of exchange is bound in case the drawee dishonours it to compensate the holder the same. The dishonor of a cheque on other hand for reasons of non-sufficient funds causes the drawer to be criminally liable under Section 138 of the Act which prescribes of the penalties, and the penal measures including imprisonment or imposition of fine in case of cheque bounce cases. But there is no drawer in a promissory note because a promissory note is a two-party instrument, with only 1 drawer (also known as the maker) who promises to pay the payee. The drawer is responsible if the drawee, or the payee or holder of the note in case of nonacceptance, does not pay, and in this it differs from a common bill of exchange in which the holder would have to first pursue the drawer.

- **Drawee:** The party to whom a negotiable instrument is payable is known as drawee. In a cheque, the drawee would be the bank upon which the cheque is drawn. Often the drawee of such a bill is another person (the payee's banker), who provides the consideration for the bill on it becoming due as a result of acceptance. The drawee, upon accepting to honour the bill of exchange, becomes an acceptor, and in so doing accepts the order to pay and assumes the secondary liability towards the payee and any endorser. Since a drawee bank has to make payment under section 31 of Negotiable Instruments Act, provided the amount is available in the drawer's account. But if this drawee dishonor he for the matter of cheque or bill of exchange without any reasonable cause he can be punishable under law. There is no drawee in a promissory note because the maker makes the promise to pay the payee. The drawee's acceptance support the instrument in commercial transactions, since at maturity the holder can rely both on a demand and an acceptance.
- **Payee:** A payee is the person or organization payable for the amount mentioned in the negotiable instrument. While the payee and the holder could

be the same entity, the payee has the option to endorse (transfer) the instrument to another, who then becomes the new holder. The payee is the person to whom the maker promises to make payment in a promissory note. Therefore, the payee is also the recipient of the bill of exchange, who is ordered to pay the drawee. In relation to a cheque, a payee is the individual or organization that is named on the cheque as the recipient of funds. The person to be paid (the payee) has the primary right to payment and can negotiate/reassign the instrument by endorsing it to a different party. If such instrument is payable to bearer, then the holder thereof shall be the payee. If a instrument is dishonored the payee may sue drawer and or endorser for recovery as provided in Section 50 of negotiable instruments Act. What is the Payee in Negotiable Instruments? The person to whom the money is to be paid.

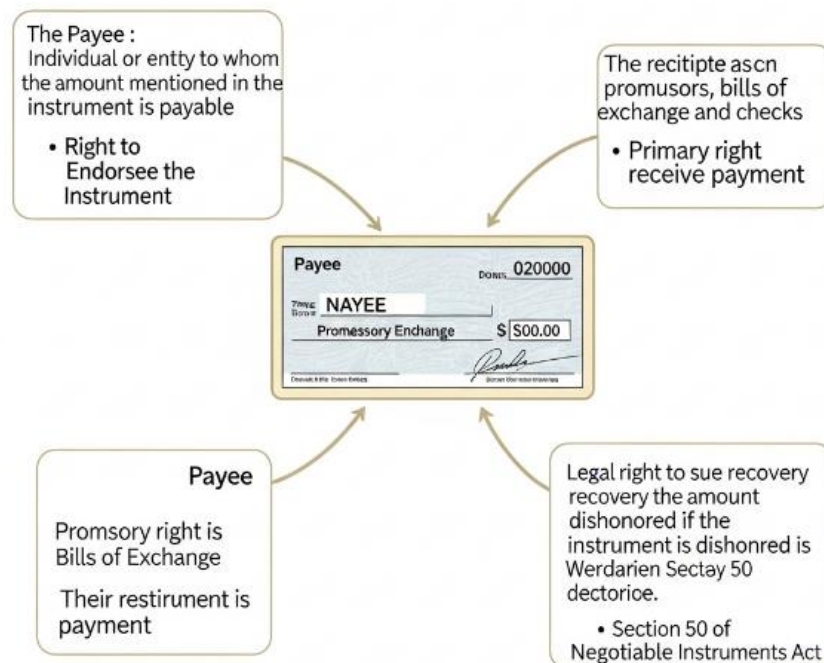


Figure 2.1.2: Payee In Negotiable Instrument

- **Endorser and Endorsee:** The endorser is the individual transferring a negotiable instrument by signing it over to another party, referred to as the

endorsee. A bill of exchange does not strictly have to be in writing, although in practice it usually is. Typically, it takes the form of a written order. When an endorsement is made to allow the bill to circulate, it can also be done in writing. Endorsements can take several forms: General endorsement: The endorser simply signs their name without specifying a recipient, making the bill payable to the bearer. Special endorsement: The endorser directs the bill to a specific person by name. Restrictive endorsement: Limits or restricts further negotiation of the bill. Conditional endorsement: Makes the payment of the bill dependent on the fulfillment of a certain condition specified by the endorser.

2.1.3 Negotiation, Presentment, Discharge, & Dishonor

The term “negotiation” refers to the process by which a negotiable instrument is transferred from one person to another in a manner that makes the recipient its rightful holder. This process is governed by the provisions of the Negotiable Instruments Act, 1881 in India, which specifically addresses negotiation in the context of promissory notes, bills of exchange, and cheques. Negotiation can occur in two main ways: through delivery in the case of bearer instruments, or through endorsement and delivery for order instruments. When an instrument is transferred by simply endorsing it without specifying a particular person, it is known as a blank endorsement, allowing the new holder to write their name and assume ownership. Essentially, negotiation involves the delivery of a cheque, promissory note, bill of exchange, or other negotiable instrument by the current holder to the party liable for payment, a business entity, or another designated person, enabling the recipient to either accept or make payment on the instrument. This provision plays a crucial role in the financial and legal system by ensuring smooth, timely payments and providing a clear framework for taking legal action in case of a breach or non-payment. And for both bills of exchange to become binding on the drawee they must be presented for acceptance, and the holder must present for payment before he can sue for



payment. Presentment under Negotiable Instruments Act, 1881 (Sections 61-66) Proper presentation of an instrument is important because failure to present an instrument properly can discharge the liability of the party ultimately responsible for payment. And, with the prominence of digital payments, the courts have interpreted presentment liberally, particularly under the Information Technology Act, 2000.

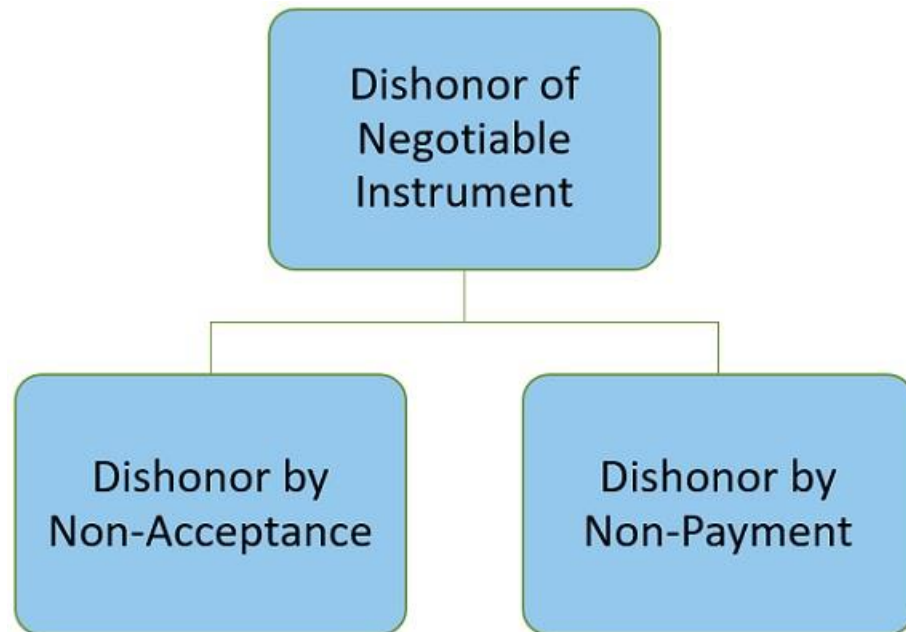


Figure 2.1.3: Negotiation, Presentment, Discharge, & Dishonor

To discharge is to release the parties liable on a negotiable instrument. This may occur by payment, agreement, alteration or by the efflux of time. The Negotiable Instruments Act, 1881 is the relevant legislation of the Limitation Act, 1963. New Text 72. A discharged instrument is not enforceable against the party who signed it, while a holder in due course's rights are discharged. But legal complications do come into play in cases of fraud, coercion, or

partial payments. In the case of *Lily-White v. R. Munuswami*, the Supreme Court examined the implications of discharge on an agreement and held that acceptance by a creditor of part payment is not sufficient for discharge of debtor unless otherwise agreed. Dishonor means that a negotiable instrument has not been accepted or paid when due and presented. It is a very serious matter particularly in case of cheque transactions and offers both civil and criminal liabilities under Indian laws. Dishonor by non-acceptance (when the drawee refuses to accept a bill of exchange) or by non-payment (When the drawee fails to make payment upon presentment). The punishment is prescribed under section 138 of the Negotiable Instruments Act which prescribes punishment by way of fine and/or imprisonment for cheque dishonour. The instrument needs to be presented for payment within three months of its issuance, and a legal notice needs to be sent to the drawer within 30 days of dishonour. Courts too have laid down the law in favor of strict interpretation, such as the in *M/s. Modi Cements Ltd. v. Kuchil Kumar Nandi*, where the Supreme Court held that even post-dated cheque comes under purview of 138 of NI Act if dishonored.

Negotiable Instruments hold prominent place in the Financial and commercial life of the country of India. All of this comes under the laws of negotiation, presentment, discharge and dishonour in the realm of financial transactions, which provides a clearer path as regards to your rights and the tick mark you need to enforce on those rights. As digital transactions and electronic banking continues to evolve, courts and legislations are constantly adjusting the applicability of these laws and its relevance in the current world of commerce. Knowledge on the legal provisions has been provided to ensure the compliance of the same in order to protect the rights of parties to negotiable instruments and avoid fraudulent practices. With the rapid pace of technology, there exists a clear opportunity to incorporate technology into existing legal infrastructure to provide more certainty and efficiency with money transactions.

UNIT 2.2 LAW OF PARTNERSHIP

2.2.1 Definition & Essentials of a Partnership

A business partnership is a well-known business structure in which two or more persons share responsibility for the operation of a business. A business partnership is not a formal business entity like a corporation; instead, it is simply an agreement between two or more individuals to manage a business and share profits. There are acts which govern the law associated with partnership in India- The Indian Partnership Act, 1932 In accordance with Section 4 of the Act, a partnership means (in other words) “the relation between people who have agreed to share the profits of a business carried on by all or any of them acting for all”. This definition emphasizes the most important elements of a partnership; an agreement, business activity, profit sharing, and mutual agency. As described by its term, a partnership is not just a contractual relationship but a group of people united who contributed financial resources, skills, or effort to achieve an economic goal in common.

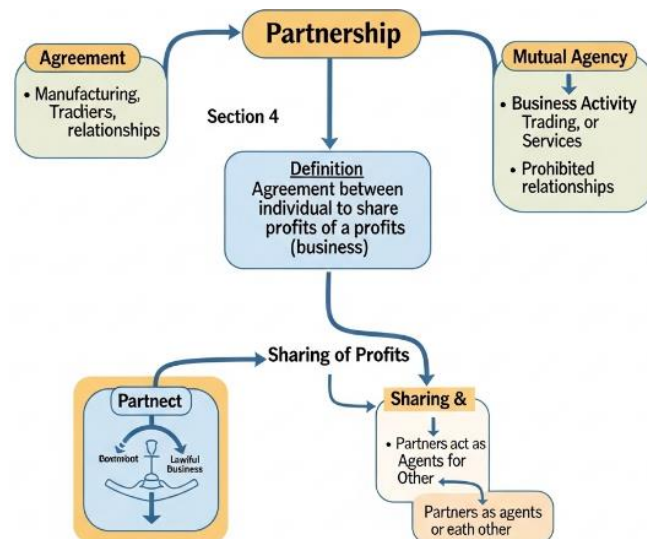


Figure 2.2.1: Law Of Partnership

Essentials of a Partnership: A partnership is a business relationship which is primarily based on the agreement between two or more individuals. This agreement establishes the underpinnings for the collaboration, as well as ensures that all stakeholders understand their respective rights, responsibilities, and obligations. This agreement means everything for how we operate, how we get paid, how we handle any disputes and so on. An undefined agreement may lead the partners to develop grave quarrels that can threaten the becoming existence of the partnership and may also affect the operational efficiency of partnership

Nature of the Agreement: Partners are able to agree, orally or in writing. A written agreement is always better for clarity and for legal enforcement. While a verbal agreement is legally binding, they can often lead to confusion and disagreements, because there are no written records of what was agreed upon. To avoid all these problems, partners typically prepare a partnership deed which is a formal agreement that governs the partnership.

Essential Elements of the Partnership Agreement

A well-drafted partnership agreement typically includes the following elements:

Name of the Partnership Firm: Your business name under which the partnership will be formed.

Details of the Partners: Names, addresses and other particulars of all the partners.

Nature of Business: The nature of the business activities the firm would undertake.

Duration of the Partnership: If the partnership is set for a specific length or indefinite

Capital Contribution: The amount of capital that each partner will invest.

Profit and Loss Sharing Ratio: how profits and losses will be shared among partners

The roles and responsibilities of each partner.

Decisional framework: The framework for making major business decisions.

Decision-Making Process: How partners will resolve disputes.

Admission, Retirement, and Expulsion of Partners—Rules regarding new partners being added and old partners retiring or getting expelled.

Partnership Can Be Dissolved: The terms of when and how the partnership can be dissolved.

Arbitration Clause: Allows for dispute resolution via arbitration instead of litigation.

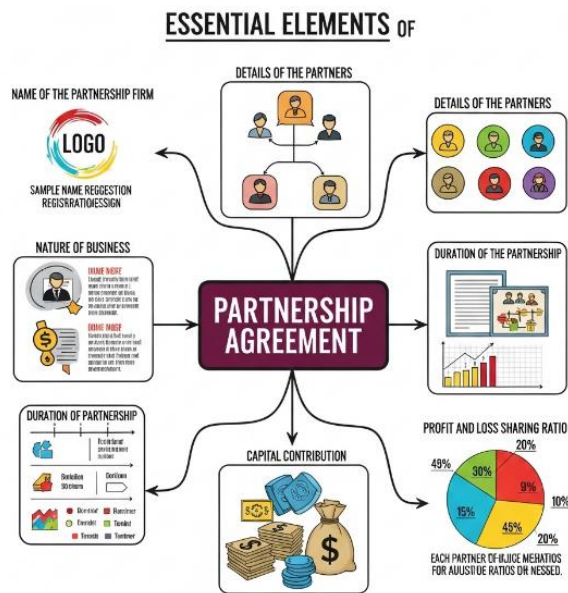


Figure 2.2.2: Essential Elements of the Partnership Agreement

Importance of a Written Agreement: The written form of partnership deed is a legal document and proof of terms agreed by partners. It is often followed by a detailed contract that is used to reduce conflicts and any misinterpretation by please stating upfront the rights and responsibilities of parties involved. Well-structured agreements also help in avoiding litigation, as any disagreement can be clarified via the recorded clauses. Also, if there is some sort of legal action, there example is an important piece of paper in the courtroom.

Registration of the Partnership Agreement: The Indian Partnership Act, 1932 does not make the registration of a partnership compulsory, however, it is highly advisable to obtain partnership registration. An unregistered partnership might have certain legal disadvantages, including:

- Cannot sue third parties
- Hurdles in enforcing rights against other partners
- Difficulty in accessing legal remedies.

Partners get their business entity legally protected and recognized by registering the partnership deed with the Registrar of Firms. This requires filling out a registration application along with the partnership deed, ID proofs, and payment of fees.

Legal Validity and Enforcement: A partnership agreement must comply with the basic requirements of a valid contract under the Indian Contract Act, 1872, including free consent, lawful consideration, and a lawful object. No agreement can be considered valid in the eye of law without the elements mentioned above. Further this agreement has to comply with the provisions of Indian Partnership Act, 1932, which governs partnership in India.

1. Common Disputes and Their Resolution

Despite having a partnership agreement, disputes may still arise. Common causes of disputes include:



- Profit-sharing disagreements
- Breach of duties by a partner
- Differences in the way decisions are being made
- Financial mismanagement
- Exit or admission of partners

A characteristic of the type of agreement that they are exposed to whereby, in order handling these types of disputes efficiently, it must be ensured that there is some mechanism for resolving any dispute defined in the agreement whether through mediation, arbitration, or intervention of courts. An arbitration is preferred because it is much quicker and cheaper than litigation.

2. Modification of the Agreement

Over time however, as a business expands and circumstances evolve, the terms initially agreed upon may no longer be suitable. The Parties may modify the Agreement by mutual consent, and such modifications must be in writing and signed by all parties. Keeping the agreement dynamic allows it to remain in-line with the business needs as they change over time.

Competency of Partners: It is one of the essential features where all partners coming into a partnership agreement have to be legally competent. As per Section 11 of the Indian Contract Act, 1872 a person must be of sound mind, of 18 years of age, and not disqualified by law to be competent to contract. This means no insane person, an undischarged insolvent, or one legally disqualified from entering into contracts is a partner. However, a minor can be admitted to the benefits of a partnership as per the provisions in Section 30 of the Indian Partnership Act, 1932. This provision enables minors to participate in the firm's profits while protecting them against liabilities." As a partner, they will not have the right to participate in management or to sue other partners, but they will have the right to inspect the firm's accounts. After coming of age, they have six months to decide whether to become a full

partner or take their share and withdraw. If they choose full partnership, they become responsible for past debts and obligations. This rule protects the firm, both legally and financially, by granting those authorized to manage business operations and engage in financial activities only with the necessary competency.

Free Will and Agreement: Free will and agreement must be also fundamental tenets of partnerships; a partnership must develop and persist on free will and mutual contract. Partnerships are based on trust and consent to the agreement, so the parties can never be forced against their will to enter into it or to become partners. The Indian Partnership Act, 1932 states that a partnership is a creation of contract and not status, in section 5. No new partner shall be admitted and no existing partner shall exit without first consulting and obtaining the consent of every partner. On any change of terms of partnership, all must agree unless the agreement states to the contrary. As the most unqualified duty of reliance exists in a partnership, an obligation of good faith and transparency amongst the partners is necessitated, including, when already in business, an obligation to work together when both making decisions and conducting business in a partnership. Without adequate consent, disputes can arise, and even litigation or dissolution of the firm. This requires a discussion between partners to ensure that every one of them is clear about mutual understanding, communication, and objectives, all of which are vital for success in the partnership business model.

Unlimited Liability: which emphasizes the financial obligations that partners hold. In partnership firms, partners bring money to the business and do not have a separate identity like limited liability structures (e.g., corporation) and thus, partners are personally liable for business debts. If the company's assets do not cover obligations, creditors can seize partners' personal assets to pay any outstanding liabilities. This is based on the principle given in Section 25 of the Indian Partnership Act, 1932, which says that every partner is jointly and severally liable for the liabilities of the firm. That is creditors can make all the partners jointly responsible for repay, or they can pursue one partner for full repayment. The clause of unlimited liability leads to accountability and prevents



reckless financial behavior.

3. Registration of a Partnership

but it helps the establishment of the firm with legal benefits that facilitate their operational aspects. While the Indian Partnership Act, 1932, does not make it compulsory for firms to register themselves with the Registrar of Firms, an unregistered firm is disappointed in various aspects. An unregistered partnership is unable to bring suit against third parties or enforce a contractual right in court by virtue of Section 69 of the Act. Such limitation hinders the firm's legal capacity to recover debts, create and enforce business agreements or settle disputes. On contrary, registered firms enjoy some legal status which means that they can sue and be sued, claim set-offs in court and gain credibility with banks and shareholders. The registration includes deed of partners fee that is submitted to the Registrar of Firms. Merely mandatory; however, registration increases a company's credibility, augments contractual safety and eases business transactions.

4. Dissolution of Partnership Firm

In India, the dissolution of a partnership firm means settling all the liabilities and distributing the assets among the partners and closing the business. Dissolution can happen voluntarily by mutual consent (Section 40 of the Indian Partnership Act, 1932) or involuntarily as a result of insolvency, unlawful business practices or a court order (Sections 41 and 44 of the Indian Partnership Act). Furthermore, dissolution can occur due to events such as the end of the partnership term, the completion of a project, the death of a partner, or a partner who gives notice in an at-will partnership (Sections 42 and 43). This legal construct aids the process of dissolution in an orderly fashion, safeguarding partner rights as well as stakeholders such as creditors.

2.2.2 Types of Partners

The Partnership Act, 1932 governs partnerships in India. A partnership is formed when two or more persons agree to carry on a business and share its profits. Since every partner does not always play the same role, the law recognises different **types of partners** depending on their involvement, liability, and contribution.

1. Active or Managing Partner

An active partner is directly engaged in running the business—signing contracts, handling customers, and making key decisions. For example, in a law firm, one partner may actively meet clients and argue cases while others play a different role. Such a partner also carries **unlimited liability**, meaning his personal assets can be used to repay the firm's debts.

2. Sleeping or Dormant Partner

A sleeping partner is someone who prefers to stay in the background. For example, a doctor may invest money in a pharmacy partnership but not participate in running it. Even though inactive, he still bears **unlimited liability** for the debts of the firm.

3. Nominal Partner

A nominal partner acts like a “brand ambassador.” He doesn't actually contribute capital or work but allows his name to be used. For example, a famous cricketer might allow his name to be used in a sports merchandise partnership. Even without investment, he is **liable to third parties** because his name may have influenced their decision to deal with the firm.

4. Partner by Estoppel (or Holding Out)

This type of partner arises from conduct. Suppose Mr. A attends meeting of a partnership firm and allows others to believe he is a partner without denying it. If outsiders give credit to the firm relying on his presence, he will be **liable** like a partner, even though he has no profit-sharing rights.

5. Partner in Profits Only

Sometimes, a partner may be admitted only to share profits—perhaps as a reward for technical knowledge or contacts. However, legally, he cannot escape liability for the firm's debts. For instance,



if the firm goes bankrupt, his liability extends beyond profits to the firm's obligations.

6. Minor as a Partner

A person below 18 cannot enter into a contract, but he can be admitted into an existing firm with the consent of all partners. His liability is limited to his share in the firm. Once he turns 18, he has **six months** to decide whether he wishes to continue as a full partner with unlimited liability.

7. Secret Partner

A secret partner prefers to stay anonymous—perhaps to protect his image or avoid conflict with another business. For outsiders, he does not exist, but within the firm, he has the same rights and liabilities as other partners.

8. Sub-Partner

If a partner wants to share his profits with another person, he can make that person a sub-partner. For example, Partner A may agree to give half of his profits from the firm to his friend B. However, B has **no rights against the firm**—he can only claim from A.

2.2.3 Rights of Partners

In a partnership business, partners share not only profits and losses but also certain rights and duties. The **Partnership Act, 1932** in India provides a framework that protects the rights of partners to ensure fairness, transparency, and smooth functioning of the firm. These rights arise either from the law, from the partnership deed, or from mutual agreement among the partners. Understanding these rights is essential as they define the balance of power and responsibilities in the firm.

1. Right to Take Part in the Conduct of Business

- Every partner has the right to participate in the day-to-day operations of the firm.
- This ensures that no single partner dominates decision-making unless agreed otherwise in the partnership deed.
- For example, in a small trading firm, all partners may jointly handle purchasing, sales, and customer relations.

2. Right to be Consulted and Heard

- Each partner has the right to express their opinion on matters affecting the firm.



- Decisions in ordinary business matters are made by a majority, but changes in the nature of business require unanimous consent.
- This right reflects democratic functioning within the partnership.

3. Right to Access Books of Accounts

- Partners have the right to inspect and copy books of accounts and records of the firm.
- This right protects transparency and prevents misuse of funds.
- For instance, a partner who is not actively managing finances can still verify accounts whenever necessary.

4. Right to Share Profits

- Partners are entitled to an equal share in the profits of the firm, unless otherwise agreed in the deed.
- The ratio of profit-sharing is usually defined in the partnership agreement.
- This right motivates partners to contribute fairly and work towards the growth of the firm.

5. Right to Indemnification

- If a partner spends money or incurs liability in the ordinary course of business or in an emergency, they are entitled to be reimbursed by the firm.
- For example, if a partner spends personal funds to settle a firm's urgent debt, the firm must repay them.

6. Right to Interest on Capital and Advances

- A partner has the right to receive interest on capital invested if the partnership deed provides for it.
- Even in the absence of such a provision, partners are entitled to interest (usually 6% per annum) on any loan or advance made to the firm.
- This ensures that partners are compensated for additional contributions beyond agreed capital.

7. Right to Compensation for Loss due to Negligence of Other Partners

- If one partner suffers a loss because of another partner's fraud or negligence, the affected partner has the right to be compensated by the guilty partner or by the firm collectively.

8. Right to Prevent Admission of a New Partner



- No new partner can be admitted into the firm without the consent of all existing partners.
- This right ensures that the mutual trust element in partnerships is preserved.

9. Right to Retire or Dissolve the Firm

- Subject to the agreement, a partner has power to retire from the firm with the consent of other partners or by giving notice (in case of partnership at will).
- A partner also has authority to seek closure of the firm through court if just and equitable.

10. Right After Retirement or Death

- A retiring partner or the legal representative of a deceased partner has the right to claim their share of capital and profits.
- This ensures that the investment and contribution of the partner is not lost even after they leave the firm.

2.2.4 Dissolution of Partnership Firm

Meaning

Closing of a firm refers to the **complete closure of the business of the firm**, where the relationship between all the partners comes to an end and the firm ceases to exist. It is different from the dissolution of partnership (where only the relation of one partner with others ends, but the firm continues). In closure of a firm, the **assets are liquidated**, liabilities are settled, and the remaining surplus, if any, is distributed within partners.

Difference: Dissolution of Partnership vs. Dissolution of Firm

- **Dissolution of Partnership:** Only a particular partner's relation with the firm is terminated (e.g., retirement, death, insolvency), but the firm continues with remaining partners.
- **Dissolution of Firm:** The entire firm is wound up; all partners' relations with one another are ended.

Modes of Dissolution of Partnership Firm

The IPA, 1932, provides for different ways in which a firm can be dissolved:

1. Dissolution by Agreement



- Since a partnership is formed by mutual agreement, it can also be dissolved by the **mutual consent of all partners**.
- If the partnership was created for a fixed period or specific purpose, it can also be dissolved when that period expires or the purpose is achieved.

2. Compulsory Dissolution

- Occurs when the **business becomes unlawful**.
 - Example: If a firm is formed to trade in a commodity and later the government bans that commodity, the firm must dissolve.
- Dissolution is also compulsory when all partners, except one, become insolvent or if the firm's business becomes impossible to continue legally.

3. Dissolution on the Happening of Certain Contingencies

- A firm automatically dissolves in certain events unless partners agree otherwise. These include:
 - Expiry of the term for which the firm was formed.
 - Completion of the specific venture for which the firm was started.
 - Death of a partner (unless there is a contract to continue).
 - Insolvency of a partner.

4. Dissolution by Notice (in Partnership at Will)

- In case of a **partnership at will**, any partner can dissolve the firm by giving a **written notice** of intention to dissolve.
- The firm stands dissolved from the date mentioned in the notice or from the date it is communicated to other partners.

5. Dissolution by the Court

- When disputes or situations make it impossible to continue the business, a court may order dissolution.
- Grounds on which a court may order dissolution include:
 - Partner becomes of **unsound mind**.
 - Partner is **permanently incapable** of performing duties.
 - Partner is guilty of **misconduct** that affects the business.
 - Persistent **breach of the partnership agreement** by a partner.



- Business cannot be carried on **except at a loss**.
- Any other just and equitable reason.

Consequences of Dissolution

When a firm is dissolved, several legal and financial consequences follow:

- **Closure of Business:** The firm must stop all business activities except those required for winding up.
- **Settlement of Accounts:**
 - Firm's assets are sold.
 - Debts and liabilities are paid off.
 - Partners' loans and advances are repaid.
 - Surplus, if any, is distributed among partners according to their profit-sharing ratio.
- **Public Notice:** A notice of dissolution should be given to avoid liability for future acts of partners.
- **Authority of Partners:** After dissolution, partners' authority is limited only to completing unfinished transactions and winding up affairs.

Settlement of Accounts (Section 48, Partnership Act, 1932)

The rules for settlement of accounts after dissolution are:

1. **Losses:** To be paid first out of profits, then capital, and if necessary, by partners individually in their profit-sharing ratio.
2. **Assets Utilisation:**
 - Firm's debts to outsiders are settled first.
 - Loans and advances from partners are repaid next.
 - Capital contributed by partners is returned.
 - Surplus, if any, is divided among partners in their profit-sharing ratio.

Dissolution of a partnership firm is a significant legal process that marks the closure of the firm's activities and the end of the relationship between partners. While partnership offers flexibility and mutual cooperation in running business, dissolution ensures that assets, liabilities, and partners' rights are equitably settled. It provides a legal exit mechanism to partners, safeguarding both business integrity and individual rights.



SELF ASSESMENT QUESTIONS

MCQ's – M II

1. CSR stands for:
 - a) Corporate Social Responsibility
 - b) Corporate Strategic Resources
 - c) Corporate Stakeholder Rights
 - d) Corporate Stakeholder Responsibility
2. CSR primarily focuses on:
 - a) Only shareholders
 - b) Enhancing profits through unethical practices
 - c) Social and environmental responsibilities of business
 - d) Advertising
3. Shareholders are:
 - a) Owners of the company
 - b) External auditors
 - c) Competitors
 - d) Media personnel
4. Stakeholders include:
 - a) Only managers
 - b) Only customers
 - c) All entities affected by business activities
 - d) Only government
5. A common argument **against** CSR is:
 - a) It enhances reputation
 - b) It increases operational efficiency
 - c) It distracts from profit objectives
 - d) It promotes ethical behavior
6. Conflicting stakeholder interests may arise because:
 - a) All stakeholders have identical goals
 - b) Priorities differ among stakeholders
 - c) Government controls every decision
 - d) None
7. CSR helps businesses by:
 - a) Increasing trust and brand value
 - b) Hiding unethical actions
 - c) Replacing legal regulations
 - d) Eliminating competition

SELF-ASSESSMENT QUESTIONS

Short Questions:

1. Define a negotiable instrument. What are its characteristics?
2. List the types of negotiable instruments.
3. What are the essential features of a partnership?
4. Explain the concept of dissolution of a partnership firm.
5. What is a promissory note? How is it different from a bill of exchange?
6. What are the different kinds of partners?
7. Who are the parties to a negotiable instrument?
8. Explain the concept of presentment of a negotiable instrument.
9. What is the liability of partners in a partnership firm?
10. What are the rights of partners in a partnership firm?

Long Questions:

1. Describe facilities and the role of negotiable instrument.
2. Explain negotiation, presentment, and discharge.
3. What do partnerships look like? Explain in detail.
4. Distinguish between the rights and liabilities of partners.
5. Write a short note on registration and dissolution of partnership firm.



MODULE II - GLOSSARY

1. **Negotiable Instrument** – A written document that guarantees the payment of money and can be transferred to others.
2. **Promissory Note** – An unconditional promise made in writing by one party to pay a certain sum to another.
3. **Bill of Exchange** – A written order directing one party to pay a fixed sum to a third party.
4. **Cheque** – A bill of exchange drawn on a bank and payable on demand.
5. **Holder in Due Course** – A person who receives the instrument for value, in good faith, and before it becomes overdue.
6. **Negotiation** – The process of transferring a negotiable instrument to make the transferee the holder.
7. **Endorsement** – Signing the back of an instrument to transfer ownership.
8. **Presentment** – Submitting the instrument to the drawee or acceptor for payment or acceptance.
9. **Dishonour** – Failure to accept or pay a negotiable instrument when presented.
10. **Discharge** – The cancellation of the obligation under a negotiable instrument after payment or settlement.
11. **Drawer** – The person who makes or issues a negotiable instrument.
12. **Drawee** – The person or entity who is ordered to pay in a bill of exchange.
13. **Payee** – The person to whom payment is to be made.
14. **Acceptor** – The person who accepts the responsibility to pay in a bill of exchange.
15. **Partnership** – An agreement between two or more persons to carry on a business and share its profits.
16. **Partnership Deed** – A written agreement containing terms and conditions of the partnership.
17. **Active Partner** – A partner who is involved in the daily operations of the business.
18. **Sleeping Partner** – A partner who invests capital but does not take part in daily management.
19. **Nominal Partner** – A person who allows the use of their name in the firm without real investment or control.
20. **Minor Partner** – A minor admitted only to the benefits of partnership, without liability.
21. **Mutual Agency** – The principle that each partner can bind the firm and other partners through their actions.
22. **Rights of Partners** – Legal entitlements including profit sharing, access to records, and participation in decisions.
23. **Duties of Partners** – Responsibilities like honesty, avoiding conflicts, and protecting the firm's interest.
24. **Dissolution** – The legal ending of a partnership firm.
25. **Firm Registration** – The legal process of recording a partnership with the registrar for formal recognition.



MODULE II - SUMMARY

The **Negotiable Instruments Act, 1881** governs the use of negotiable instruments such as promissory notes, bills of exchange, and cheques in India. A negotiable instrument is a written document guaranteeing the payment of a specific amount of money either on demand or at a fixed time, with the right to transfer the instrument to others. These instruments possess key characteristics such as transferability, the right of the holder in due course, and the ability to sue in one's own name without informing the original party. Promissory notes are unconditional written promises made by one party to pay another, while bills of exchange are orders made by one party to another to pay a third party. Cheques, a form of bill of exchange, are drawn on a specified banker and are payable on demand.

The process of transferring a negotiable instrument is known as **negotiation**. The transfer can happen by endorsement and delivery in the case of bearer instruments, or by endorsement alone in order instruments. **Presentment** refers to submitting the instrument to the appropriate party for acceptance or payment. If the instrument is not honoured, it is said to be **dishonoured**, which can be by non-acceptance or non-payment. Upon dishonour, notice must be given to prior parties. An instrument is considered **discharged** once all obligations under it have been satisfied, typically upon full payment. Various parties involved in these transactions include the drawer, drawee, payee, acceptor, endorser, and holder in due course, each bearing specific rights and liabilities under the Act.

On the other hand, the **Indian Partnership Act, 1932** regulates the formation and functioning of partnership firms. A **partnership** is defined as the relationship between persons who have agreed to share the profits of a business carried on by all or any of them acting for all. The essential elements of a valid partnership include the existence of a contract, sharing of profits, and mutual agency. Partnerships are formed through an agreement (written or oral) among partners, and while registration is not mandatory, it is strongly encouraged for legal recognition and ease of dispute resolution.

The law recognizes different types of partners including **active partners** (who manage day-to-day operations), **sleeping partners** (who invest but do not participate in management), **nominal partners** (who lend their name without capital contribution), and **minor partners** (admitted to benefits of partnership with limited liability). Partners have certain rights like participation in management, access to books of accounts, and sharing profits, along with duties such as acting in good faith, indemnifying for loss caused by fraud, and not competing with the firm.

The registration of a partnership firm, though optional, confers several advantages including the right to sue and enforce rights in court. A firm can be dissolved in various ways—by mutual consent, on the happening of certain contingencies, by the court, or due to insolvency or death of a partner. Each form of dissolution has legal consequences like settlement of liabilities, distribution of assets, and final closure of accounts.



Answer to multiple choices question (M – II)

- 1-a - Corporate Social Responsibility
- 2-c - Social and environmental responsibilities of business
- 3-a - Owners of the company
- 4-c - All entities affected by business activities
- 5-c - It distracts from profit objectives
- 6-b - Priorities differ among stakeholders
- 7-a - Increasing trust and brand value



MODULE 3 COMPANIES ACT

Structure

Unit 3.1 Definition & Characteristics of a Company

Unit 3.2 Directors

OBJECTIVES

- Describe a company and the basic factors that comprise a company.
- Distinguish between different kinds of companies (public, private, one-person and listed companies).
- Outline the processes of company formation and the statutory requirements for the incorporation of a company.
- Describe MoA and AoA with a brief explanation thereof.
- Learn what a prospectus is and how it is vital to fundraising.
- Explain the appointment, powers, functions and liabilities of directors of a company.
- To recognize the different types of company meetings and describe the rationale for them.
- Describe the appointment, powers and liabilities of auditor in a company.
- Explain the various modes of winding up of a company Discuss their legal consequences.

UNIT 3.1 DEFINITION & CHARACTERISTICS OF A COMPANY

3.1.1 Definition & Characteristics Of A Company

A company is an association of individuals, whether natural or artificial, which is formed for commercial, industrial, or professional activities. This is known as it being a separate legal entity of its owners, which means it can own assets, take on liabilities, enter into contracts, and sue or be sued in its name. In India, the Companies Act, 2013 is the key legislation that contains the definition of the word company and according to which a company means an artificial person created by law and having perpetual existence and a common seal. The notion of separate legal entity is established from the case of *Salomon v. Salomon & Co.* (1897). In a company, individuals who invest in a company own share and their personal assets are protected thanks to limited liability this means they are only liable for (and only lose) what they haven't paid for yet in regards to their shares. Another important characteristic is perpetual succession, which means that a company survives regardless of differences in ownership, resignation, or death of its members. Because of this continuity, a company is a stable and long-term business structure. So, the common seal was not a requirement of the Companies Act, but was historically used to indicate official documents from the company. A corporation is managed through a board of directors who manage the activities in line with legal and regulatory frameworks of the company. Another major factor is sharing transferability, whereby shareholders of a public company can freely buy and sell shares on stock exchanges, while private companies will limit transfer of shares to control ownership. Companies are also able to separate ownership from management, allowing professional managers to manage the business and shareholders to invest in it. Compliance with statutory requirements of regulatory authorities such as MCA, SEBI, and RBI is mandatory.

articles of association outlining their purpose, internal management rules, and decision-making processes. What provides legal recognition to a company is the process of incorporation, registration, and issue of certificate of incorporation. In the case of India, firms play a fundamental role in economic development, providing extensive employment, generating an economic stream of revenue streams, and supporting industrialization and technological transformation. Their organized structure enables them to attract investment, catalyze industries, and scale internationally, and they are the backbone of modern-day commerce.

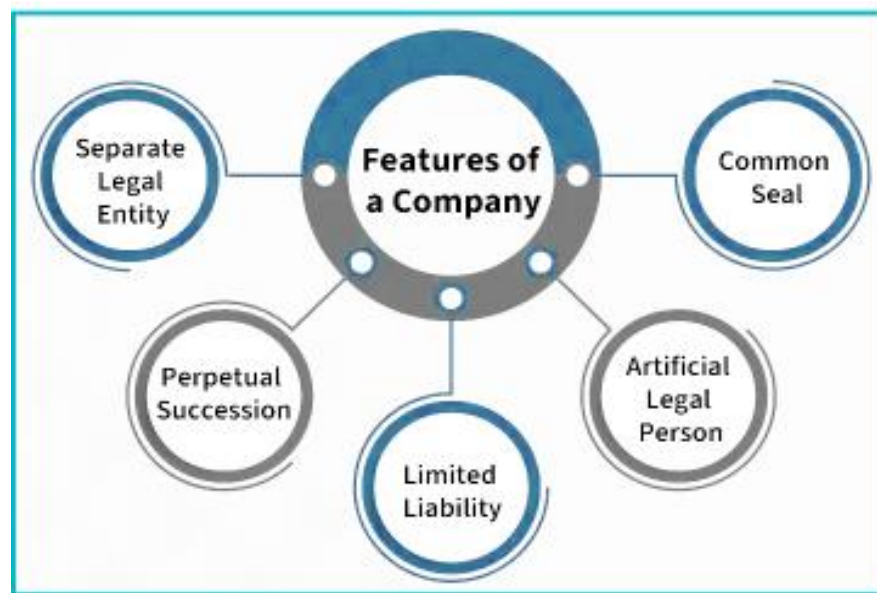


Figure 3.1.1: Definition & Characteristics of a Company

3.1.2 Kinds of Companies (Public, Private, One-Person, Listed, etc.)

Companies can be broadly classified based on ownership, liability, membership and purpose in India. The main break here is public vs private, which have very different regulations and market interactions. It is a company that raises funds from.

stringent regulations from SEBI and MCA, but they also ensure transparency through quarterly disclosures, annual reports, and corporate governance standards. These are Reliance Industries, Tata Motors, Infosys, etc. A private co, in contrast, has a small number of shareholders (2 to 200), does not let shares trade publicly and is subject to less onerous compliance standards. And it is flexible in nature, this is the reason that it is often the prime choice of family-owned businesses and start-ups. Some well-known private firms include: Flipkart India Pvt. Ltd. and Ola Cabs Pvt. One Person Company Based on the Companies Act, 2013, a new concept of OPC (One Person Company) has been introduced – the One Person Company means a company formed with only 1 (one) person as a member, unlike the existing concept of a private limited company which requires 2 (two) members. It's a good model for solo business owners who want to outgrow their sole proprietorships. Another major distinction is to public and private companies. Non listed companies do not get the trading platform like listed companies get on NSE and BSE listed companies enter into the stock markets to get the liquidity and also get the investors attention. Similarly companies may be classified according to whether they are limited by shares (meaning a shareholder's liability is limited to the amount of his or her share of the capital), or whether they are limited by guarantee (in which the liability of at least one member is limited to a fixed amount that each member undertakes to contribute on the event of the company's winding up) or unlimited (the members have unlimited liability). Non-Profit-Organizations (NPOs) or Section 8 Companies have social/educational/charitable/religious goals and utilise all surplus in their operations instead of distributing dividends. Government Companies are companies like ONGC and SAIL, with at least 51% of government ownership and important in terms of strategic sectors. See paragraph (b). If the At least one or more company with foreigners' ownership are regulated under India law as foreign companies with local office with foreign ownership doing business in India. One company holds a majority stake in another, these are parent and subsidiary companies. Joint



Venture Companies is formed by a collaboration of domestic and foreign entities that encourages international partnership. These are formed when one entity has a significant but not complete influence over another. Producer Companies, under the aegis of Companies Act, 1956 for farmers, artisans, and rural businesses also focus on cooperative development. What are Dormant companies; Dormant companies are legally recognized and registered businesses that do not actively trade or conduct business transactions. Due to this diverse classification, companies in India play multiple economic and social roles, fueling growth, invention, and regulated business practices in the nation.

3.1.3 Steps in the Formation of a Company

1. Promotion of a Company

The first and most important process of company formation in India is the promotion stage, where a person or a group of people (promoters) have the idea of setting up a company and take further steps to start the company. Therefore, promoters detect a business opportunity, evaluate its viability, and gather the required resources like finance, manpower, and technology. They proceed to conduct market research, create business plans, and decide the type and nature of business—whether it will be a private limited company, a public limited company, or a one-person company. These promoters then decide a name for the company, check it for uniqueness and compliance with Ministry of Corporate Affairs (MCA) guidelines. They also draft preliminary contracts with vendors, suppliers, or other important stakeholders that the business will rely on. Promoters play a very important role as they take the risk of pre-incorporation stage and set the base for the company's formation. They can also engage professionals like chartered accountants, company secretaries, and legal advisors to verify compliance with all legal and regulatory requirements during the incorporation process. The Companies Act, 2013 also acknowledges the part of

Companies Act



2. *Registration or Incorporation of the Company*

The primary requirement in the process of company formation in India is the registration or incorporation of the company, the turning of the company into a corporate personality by law. Promoters would require to file an application with the Registrar of Companies (ROC) containing the MOA, AOA and an application for name approval (RUN - Reserve Unique Name). The MOA is an outline of the company's project, and the AOA governs everything that is inside of the company. SPICe+ (Simplified Proforma for Incorporating Company Electronically Plus) forms has been introduced for incorporation with various approvals including the Permanent Account Number (PAN), Tax Deduction



Account Number (TAN) and Goods and Services Tax (GST) registration. Every professional needs to submit a declaration that all the legal requirements ii have been fulfilled like chartered accountant, company secretary. The ROC then verifies the submitted documents, and if satisfied that the company has completed all the formalities, issues a Certificate of Incorporation (COI), which serves as conclusive evidence of the company's existence. The COI has key information including the name of the company, Corporate Identification Number (CIN) as well as date of incorporation. This move would give the company a standalone legal entity status and enable it to enter contracts, hold assets and occupy a business in its own name. Thanks to the digital facilities and Government of India initiatives, the incorporation process has become a breeze that could take just a few minutes to start the business.

3. Capital Subscription and Raising Funds

After the company is created, the next step is funding it with capital to support the company's business activities. To raise capital regarding private company, funds are mostly raised by personal investment of the promoters, venture capitalists or private money investors. The public companies are required to collect money from the general public in an Initial Public Offering (IPO). The IPO process also has to follow the regulations around the IPO by SEBI which includes creating a draft RHP (Red Herring Prospectus) which specifies in detail the company's current financial position, business model, risks and potential. The company will also have to garner stock exchanges and appoint underwriters, registrars and merchant bankers to handle the issue. The company can raise the capital in the form of equity shares, preference shares, or debentures, whichever is more viable for the company's financial strategy. Those who invest in shares become partial owners of the firm and have a right to dividends. It also guarantees that the company has enough funds at hand to operate and run its business. Funding is being obtained through means such as bank loans, angel investments, and government schemes for companies that prefer not to go public

in the immediate future. To support their financial stability and long-term growth, businesses must properly plan and allocate capital.

Companies
Act

4. Commencement of Business

Once a company is incorporated and raises initial capital it has to follow certain legal formalities to start its business. If a public limited company has made shares available to the public, a minimum subscription (the amount of money which must be raised from investors) must be raised before the business can commence. As per Companies Act, 2013 every company has to file a declaration with ROC stating that subscribers had remitted agreed share capital and that the registered office from where company proposes to operate has been verified.

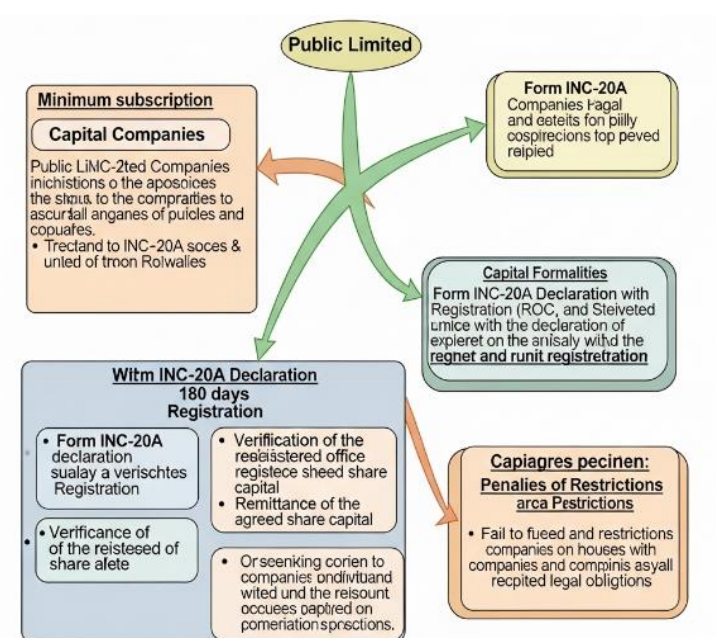


Figure 3.1.4: Commencement of Business

This declaration should be done under Form INC-20A and should be filed within 180 days of registration. It can lead to penalties and other charges of restrictions dividing the business. Depending on the nature of its business, the company also needs statutory licenses and registrations like Goods and Services Tax (GST)



registration, Employees' Provident Fund (EPF) registration, Shops and Establishment registration etc. Also, the company will be required to establish a corporate bank account, appoint key managerial personnel (KMPs) including directors and auditors, and frame the operational structure of the company. It is only after these legalities are done that the company may actually begin doing business. It is an important stage since this is when the company starts entering the market and generating revenue, signing contracts and scaling up their operations.

5. Compliance and Post-Incorporation Formalities

Once a company has started a business, it has a lot of legal and regulatory commitments to follow to run the business smoothly and lawfully. The Companies Act, 2013 continues to impose numerous such stipulations to make compliance mandatory, such as the maintenance of statutory registers, conducting AGMs and filing of annual financial results with ROC, among various others. Apart from this, companies are also required to comply with tax filings and audit requirements e.g. income tax return, GST filing, tax audit, etc. It is mandatory for every company to appoint an auditor within 30 days of incorporation to maintain financial transparency. There are more compliance obligations for listed companies mandated by the Securities and Exchange Board of India (SEBI) guidelines, which cover quarterly disclosures, insider trading regulations, and corporate governance norms, etc. Non-compliance with any of these requirements could lead to penalties, fines or even disqualification of the directors. In addition, companies have to focus on internal governance, such as risk management, corporate social responsibility (CSR), employee welfare, etc., in addition to compliance with legal requirements. Post incorporation compliance is an ongoing activity which needs continuous monitoring of laws and updates with changes in corporate law. Companies with strong track records of compliance increase

their credibility in the market, attract investors, and avoid legal disputes, thereby achieving long-term success and stability.

3.1.4 MEMORANDUM OF ASSOCIATION & ARTICLES OF ASSOCIATION

MoA is a company's charter ie we can say it to be the founding document of the company in India and is the highest document of the company. The Act that sets out the company's objects, powers and relationship with shareholders. MoA Contains 6 Clauses These are: (1) Name Clause The name of the company as registered is drafted here (2) Registered Office Clause Where the registered office of the company shall situated will be found here (3) Object Clause Primary and secondary purpose for which the corporation can create itself is defined (4) Liability Clause Here, the liability of the members may be limited or unlimited (5) Capital Clause The share capital allowed of the company is written in this clause (6) Association Clause It contains the intention of the subscribers to form the company. The MoA is binding on the company and its members to the extent that the company will be prohibited from undertaking any business which is not provided for in the Object Clause. Any amendments to the MoA require the approval of shareholders, the RoC and can also require the approval of the NCLT in some cases. The MoA is a guarantee of proper operations, adherence to norms, and transparency in company management. Its provisions, if violated, can result in fines or prosecution, making it an important touchstone document for investors, stake holders and government authorities.



Figure 3.1.4: Memorandums of Association & Articles of Association



Articles of Association (AoA) another crucial legal document governing the internal management, rules and regulations of a company in India is the Articles of Association (AoA). Its role alongside the MoA is to outline the governing framework for the company, how it will be run as a matter of administration, and the rights and duties granted to the company's directors and shareholders. Common provisions in AoA are: (1) Share Capital and Transferability; (2) Voting rights, (3) Appointment and Powers of Directors, (4) Conduct of Board and General Meetings (5) payment of Dividends (6) Financial Statements; and (7) Settlement of disputes. The AoA on the other hand is a document that can be tailored to deal with the internal management of the company and can be altered by passing a special resolution at a general meeting, unlike the Mem AOA shall not be against the provisions of the Companies Act, 2013 and shall not override the MoA. As in the case of an AOA of a private company, you would generally expect provisions of the AOA of a public company (and that would have to be inserted) to be drafted more flexibly than a public company would have to have done in its AOA. In summary, AoA plays a significant role in the CG, helps to make a proper decision, protect right of shareholder and enhance the transparency in business. It also makes the contract of AoA, a reference in a legal dispute between shareholders and directors. Therefore, both are necessary document to enforce compliance, operational transparency and legal coverage of the Indian company.

3.1.5 Prospectus & Its Importance

A prospectus is a key document in corporate finance, and is typically used by companies that plan to raise capital through public investment. It acts as a detailed disclosure document, giving potential investors key insights into the company's financial health, business operations, and future goals. This level of transparency is important for the investment decision process, which ensures that investors are fully aware of the potential rewards and risks of investing in the company. Prospectus is a document issued by any company who want to offer its securities to the general public under the Companies

Act, 2013. You cannot understate the importance of the prospectus. It serves as a bulwark against misinformation and fraudulent practices in the financial markets. It enables companies not to mislead prospective investors, as the prospectus contains full and accurate information. This helps keep the investment process fair and transparent. It holds companies accountable, requiring that they disclose detailed financial information, including prior performance, future earnings projections, risks, and the company's planned use of the capital raised. Therefore, the information provided by the prospectus contributes to establishing an efficient and reliable environment for investors, which is a key requirement for the stability of the capital markets.

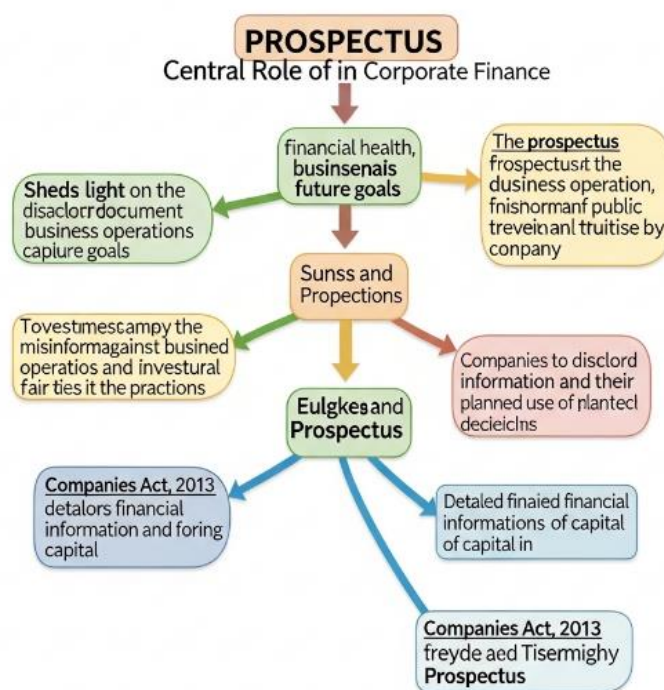


Figure 3.1.5: Prospectus

Prospectuses come in many forms and types for different needs of an issuer entity at the time of raising capital. List of Common Types of Prospectuses One of the most widely used is the Red Herring Prospectus, which acts as a preliminary prospectus in the case of book-building issues. This particular type of prospectus provides all details regarding the company, except for the price the securities will be offered for. It helps to build interest in the public offering



while giving flexibility on price. Another category also called the Shelf Prospectus allows a company to issue securities in multiple tranches over a certain period without a need for fresh approval from the regulators. This form is helpful for companies that intend to execute security offerings in multiple rounds. Last one is Abridged Prospectus is exactly that, an abbreviated and condensed version of the entire prospectus with only the most relevant information about the offering so it is slightly more convenient for potential investors who might not necessarily require the same amount of information. Although the prospectus can be a useful marketing tool for companies, and a way for investors to understand equity offerings, it brings with it a high degree of legal liability. False or omitted statements in a prospectus can have serious consequences. According to Section 34 and Section 35 of the Companies Act, if a company provides any false or misleading information in a prospectus, then the company can be subjected to a legal suit along with fines and imprisonment as punishment. This highlights the seriousness of the document and the need to ensure that it is accurate and reliable. Different aspects of the prospectus which classify it as an essential tool during capital raising, the need for transparency & accountability in corporate governance along with the protection of investors are also discussed in this paper. The prospectus is essential to the overall integrity and stability of the financial markets by ensuring that investors have access to all the information they need to make informed decisions. As such, it protects the interests of the investors, thus building trust and confidence is why it is an important document in corporate finance.

UNIT 3.2 DIRECTORS

3.2.1 Appointment, Powers, Duties & Liabilities

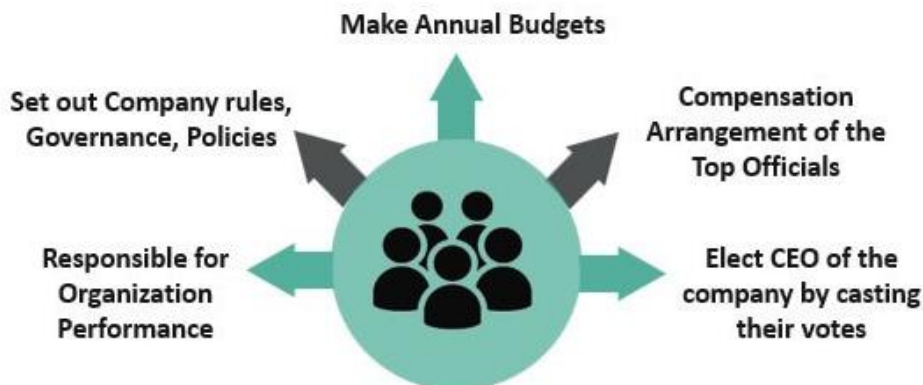


Figure 3.2.1: Board of Directors' Responsibilities

The Board of Directors (BoD) is the organ regulating the business of the joint-stock work, is liable for managing the joint-stock work in a natural way, striking a balance amidst monetary proficiency and profitability. Relevant provisions for appointment of directors are contained in detailed forms of Sections ranging from 149 to 172 of the Companies Act, 2013 which prescribes the eligibility, responsibility and the authority of the directors. These provisions help to ensure that the governance of companies is transparent, accountable, and in accordance with the best practices of corporate governance. Various categories of directors fulfil different governance needs of companies. Executive directors are usually concerned with the daily operations of the business, which gives them extensive managerial authority. In contrast, non-executive directors do not participate in day-to-day operations but rather add value to higher-level strategic decision making. This is why independent directors are there, to protect shareholders and help keep management aligned with the best interests of the company. Nominee directors; Nominee directors are appointed by specific stakeholders or financial institutions to represent their interest in the firm. The authority of directors chiefly arises from the company's Articles



of Association, a founding document that cover the powers and responsibilities of the directors. Essentially, these powers allow them to discharge significant decisions relating to the financial blueprint of companies, M&As, and CSR initiatives. Directors are usually involved in a company's strategic planning, approving important policies and establishing long-term goals. They are also mandated with corporate adherence to applicable laws and regulations, compliance with business strategies, and transparency in financial information reporting. Section 166 of the Companies Act, 2013; judicial pronouncements have elaborately called for the duties of directors which requires directors to, amongst others, act in good faith; use their powers for a purpose which is in the best interest of the company as a whole; exercise due diligence and have the appropriate skill and experience to perform their tasks; or take action in circumstances that no reasonable person would take. The basis on which thousands of company directors manage a business in India on daily basis involving millions of shareholders has always been looked upon with concern but has always been fine-tuned with judicial precedents and guidance (directors' duties in the realm of the Companies Act, 2013 as interpreted in the light of judicial precedents). Directors must balance decisions in the best interests of the company's health and longevity with what is legal and ethical. For example, Directors must not have any relationship that would create a conflict between their interests and those of the company, maintaining an objective position on any and all matters. Also, they owe their company and its stakeholders that as they carry out their roles, they must have due care and caution.

If these obligations are not maintained, then directors may face dire liabilities. Upon conviction for breaches of duty, fraud, and/or serious financial mismanagement, a director can be subject to penalties (varies from financial fines to prohibition from being in directorship). In the most severe scenarios, directors can even be secured criminally and convicted, resulting in even more legal repercussions. These liabilities have been instrumental behind implementing stringent corporate governance practices, particularly in India, which has

witnessed an increase in number of corporate scandals attracting the scrutiny of the responsibilities of directors. It is through the meetings of the Board of Directors that we ensure accountability. These meetings are where directors discuss strategic decisions, review performance, and pass resolutions on key issues. Decisions made in these meetings are binding and among the most impactful in the company's corporate governance. It is at the meetings that effective resolutions are made and incorporated in running the company for the protection of all stakeholder interests. As a result, the nature of the reality of directors changed in the current corporate world, which is more focused on governance, accountability and responsibility.

3.2.2 Meetings & Resolutions

Types of Company Meetings

The process of corporate decision-making (which involves deliberation and resolutions in meetings) is cumbersome. These formal meetings are important for deliberating and voting on important business matters to make sure that things are organized and done legally. Meetings of different kinds have different functions in a company, and each type will require some specific procedures, quorums, etc., if they are to be effective at all. Any company usually holds its first and most important meeting which is Annual General Meeting (AGM). This meeting is compulsory for all firms other than OPC. There are also essential matters that will be discussed at the AGM such as approval of financial statements, declaration of dividends, appointment of new directors or the reappointment of old directors, etc., and the AGM is supposed to be held within six months of the end of company's financial year. The AGM encourages shareholders in person thus promoting transparency of operations. The AGM must allow for the leave approval of shareholders where voting on resolutions is in the manner of the voting process.



Extraordinary General Meetings (EGMs) are specially convened to address pressing issues requiring shareholder consent before the next scheduled Annual General Meeting (AGM). EGMs deal with specific matters that may come up throughout the year, like company structural changes, mergers, acquisitions, or key management personnel appointments. An EGM is generally called by the board of directors but can also be requested by shareholders owning a certain percentage of a company's shares. To summarize, EGMs are urgent in nature and therefore, require notice to shareholders on short notice, meaning the notice period is often shorter compared to that of an AGM.

- **Board Meetings:** Another ingredient of corporate governance is Board Meetings Normally scheduled at regular intervals such as quarterly or monthly, these meetings are attended by the company's directors. Internal company policies, strategic decisions, and long-term goals are also extracted from board meetings. Directors monitor the company's performance, approve budgets, relate to corporate policies, and take up matters that can affect the company's operational and financial standing. Board meetings are private meetings and very different from AGMs and EGMs because they are not open to the general shareholders (board meetings may invite specific individuals to discuss specific matters).
- **Class Meetings:** are called for particular classes of shareholders such as preference shareholders or other classes of equity holders. These meetings are called to address matters that only affect a specific set of shareholders and not the company as a whole. For example, preference shareholders may have different voting rights or different dividend policies than ordinary shareholders, and therefore any adjustment to their terms / conditions would need a class meeting to approve. Official decisions arising from these meetings are usually recorded in the form of resolutions. Different kinds of resolutions require different levels of approval. Ordinary resolution which forms the majority of resolutions, requires more than 50% of positive votes. Special resolutions must pass a higher bar, generally at least 75% of the votes

in favor, and are reserved for more momentous actions such as amending the company's articles of association. Unanimous resolutions require the agreement of all shareholders and are typically used in situations where there are substantial changes to the nature of the business or if the company is being placed at particular risk. The best practice in ensuring compliance to any legal and regulatory requirements is to conduct proper company meetings. Complying with such procedures amplifies transparency and bolsters shareholder trust, ensuring the long-run objectives of corporate success.

3.2.3 Auditor

Auditors and Their Role in Corporate Governance

Auditors are essential elements in the process of keeping companies financially honest and accountable. Their main task is to review a company's financial statements to ensure that they give a true and fair representation of the business's financial position. This independent verification minimizes the risk of financial mismanagement, fraud as well as errors, enhancing investor confidence and ensuring adherence to legal and regulatory frameworks.

Appointment of Auditors

Under Sections 139-147 of the Companies Act, 2013, the appointment of auditors is regulated to the extent possible to maintain their impartiality and independence. A first auditor of the company is appointed by the Board of Directors within 30 days from the date of incorporation. Should the Board be unable to do so, it is the duty of shareholders to appoint an auditor at an extraordinary general meeting (EGM) within 90 days. Shareholder approval is required at the Annual General Meeting (AGM) to appoint auditors for



listed companies and other specified entities. It also provides for a maximum term of five years for individual auditors and ten years for audit firms with a view to bring in rotation with a view to prevent undue influence on auditors.

Rights and Duties of Auditors

The Companies Act also details certain rights of the auditors that enable them to perform their function effectively. These include:

Access to Books of Accounts: Auditors have the right to check financial statements, ledgers, and records at any time.

Right to Information: They can ask the company officers to explain the financial transactions.

Attendance at General Meetings: Auditors have the right to attend and express their views at general meetings of shareholders.

Fraud Reporting: Auditors are obliged to report to Central Government if they notice any fraud exceeding the amount of ₹1 crore.

Auditors have the responsibility of carrying out audits according to accounting standards; these professionals also prepare reports that highlight irregularities and ensure the company follows financial regulations in addition to these rights.

Liabilities of Auditors

You have a task to perform as an auditor and you have a responsibility. Section 147 of the Companies Act imposes huge legal liabilities on the auditors if they fail to detect misrepresentation and commit misconduct. These include:

- **Civil Penalties** – Fees for professional malpractice, or failure to meet standards of care

- **Criminal Prosecution** – in the case that an auditor is convicted of fraud, they are punishable by up to ten years imprisonment.
- **Disqualification** – The National Financial Reporting Authority (NFRA) can debar dipping auditors from the practice for a period not exceeding ten years in case of gross misconduct.

CARO 2020 and Strengthened Auditing Standards

The companies (Auditor's Report) Order (CARO), 2020 aimed at improving transparency in auditing by regularizing certain reporting requirements. It requires auditors to provide information on company defaults, the impact of litigation, risks of fraud, and undisclosed transactions. Now one of the most financially literate nations, post-independence, the corporate culture in India has witnessed such a remarkably positive change due its amendments to accounting standards and the gradual introduction of IFRS acts that ensured good corporate governance and accountability amongst the companies and auditors. As a result of this, auditors are a key part of financial oversight; they're in charge of ensuring companies retain integrity, investor confidence and regulatory compliance.

3.3.4 Modes of Winding Up a Company

The process of winding up is the formal dissolution of a company, ensuring it settles its liabilities before it closes down for good. The Companies Act, 2013 describes two specific categories of situations under which you can wind up; voluntary winding up and compulsory winding up by Tribunal (NCLT).
Voluntary winding up This happens in instances where the company is insolvent, and there are measures taken to dissolve the company, either by the shareholders or creditors. Passing a resolution, appointing a liquidator, and settling debts is the process. Reasons for a compulsory winding up include fraudulent conduct, financial insolvency, and failure to comply with legal requirements, and the process is initiated by the National Company Law.



Tribunal (NCLT). The winding-up process has been made much simpler through the 2016 Insolvency and Bankruptcy Code (IBC), which emphasizes time-bound decisions and the interests of stakeholders. A winding up process includes, among other things, the filing of a petition, creditor meetings, the appointment of a liquidator and the settling of all liabilities. In a case of a voluntary winding up, the File on Return of registration with the ROC is filed when its assets are sold, debts are paid off and the return is sent to the Registrar of Companies(ROC) declaring that the company stopped to work. Mandatory Liquidation by the NCLT – Under a compulsory liquidation, the NCLT has a critical role in efficiently monitoring the liquidation process for adherence to statutory requirements. Liquidators are important in the selection of the companies' assets and in settling claims that are made by creditors and distributing whatever funds may be available among interested parties. If executed correctly, winding up should follow asset distribution, compliance with applicable laws and, consequently, a nondisturbed exit from the business environment. it has expedited the process for the resolution of insolvency - thus bringing out ease of doing business. The transformation of this regulatory environment is designed to streamline and enhance the process of overseeing corporate wind-down.



SELF ASSESMENT QUESTIONS

MCQ's – M -III

1. Corporate governance primarily ensures:
 - a) Monopoly creation
 - b) Ethical and transparent business operations
 - c) Employee layoffs
 - d) Market domination
2. Insider trading involves:
 - a) Public information
 - b) Use of confidential information for trading
 - c) Customer loyalty programs
 - d) Charity contributions
3. Whistleblowing refers to:
 - a) Misleading shareholders
 - b) Reporting unethical practices
 - c) Insider trading
 - d) Creating accounting fraud
4. Which company is associated with a notorious accounting scandal?
 - a) Enron
 - b) Google
 - c) Toyota
 - d) Infosys
5. Microsoft Antitrust case was related to:
 - a) Water pollution
 - b) Misuse of market dominance
 - c) Environmental fraud
 - d) Health and safety issues
6. Sustainability initiatives at GE were branded as:
 - a) Ecomagination
 - b) Green Plus
 - c) Earth Vision
 - d) EcoFriendly Corp
7. Ethical governance helps in:
 - a) Decreased investor confidence
 - b) Economic instability
 - c) Preventing fraud and corruption
 - d) Reduced transparency

Companies Act **ASSESSMENT QUESTIONS**

Short Questions:

1. What is company and its characteristics?
2. Types of Companies What are the types of companies?
3. What is the distinction between MOA and AOA?
4. What is a prospectus?
5. What is types of meeting in an organization?
6. What responsibilities and liabilities does a director have?
7. Who is an auditor? What are their rights?
8. What are the modes of winding up a company?
9. What is the type of registration to follow in case of company?
10. What are the salient features of the Companies Act?

Long Questions:

1. Describe the procedure for the incorporation and registration of a company.
2. Explain the duties and functions of company directors.
3. Describe various methods of winding up a company.
4. Analyse the rules that govern a company's prospectus.
5. Describe any important terms with respect to company meetings and resolutions?



MODULE III- GLOSSARY

1. **Company** – A legal entity formed under the Companies Act with separate legal personality.
2. **Separate Legal Entity** – The company exists independently from its members and can own property, sue, and be sued.
3. **Limited Liability** – Shareholders are only liable to the extent of their shareholding.
4. **Perpetual Succession** – The company continues to exist regardless of changes in membership.
5. **Private Company** – A company that restricts share transfer and limits members (up to 200).
6. **Public Company** – A company that offers its shares to the public and must comply with strict disclosure norms.
7. **One-Person Company (OPC)** – A company with a single shareholder, offering limited liability and legal recognition.
8. **Listed Company** – A public company whose shares are traded on a recognized stock exchange.
9. **Memorandum of Association (MoA)** – The charter document defining the company's objectives and powers.
10. **Articles of Association (AoA)** – Internal rules and regulations governing the company's management.
11. **Prospectus** – A document issued by public companies inviting the public to invest in shares or debentures.
12. **Director** – A person elected or appointed to manage the affairs of a company.
13. **Board of Directors** – A group of individuals collectively responsible for governance and decision-making.
14. **Appointment of Directors** – Process by which directors are nominated and approved, often at company meetings.
15. **Duties of Directors** – Legal and ethical obligations such as care, diligence, and acting in the company's interest.
16. **Liabilities of Directors** – Legal responsibility for wrongful acts, including fraud or breach of fiduciary duty.
17. **Statutory Meeting** – An initial meeting required for public companies after incorporation.
18. **Annual General Meeting (AGM)** – A yearly meeting to discuss financial performance and approve key decisions.



19. **Extraordinary General Meeting (EGM)** – Meetings held to address urgent or special business matters.
20. **Board Meeting** – Regular meetings of directors to oversee and guide company operations.
21. **Auditor** – An independent professional who examines financial records of the company.
22. **Audit Report** – A statement by the auditor expressing an opinion on the accuracy of financial statements.
23. **Rights of Auditors** – Include access to records, attendance at general meetings, and expressing independent views.
24. **Liabilities of Auditors** – Accountability for professional misconduct or negligence in performing audits.
25. **Winding Up** – Legal closure of a company involving asset liquidation and debt settlement.
26. **Voluntary Winding Up** – Initiated by members or creditors when the company decides to close operations.
27. **Compulsory Winding Up** – Ordered by a tribunal, usually due to legal violations or inability to pay debts.



MODULE III - SUMMARY

A **company**, as defined under the Companies Act, is a legal entity formed by individuals or groups to carry on a business enterprise. It enjoys a separate legal personality, meaning it exists independently from its shareholders and members. The main characteristics of a company include limited liability of members, perpetual succession, the ability to own property, and the ability to sue or be sued in its own name. Companies may be classified into several types such as **private companies**, which restrict share transfers and have limited members; **public companies**, which can raise capital from the public; **one-person companies**, which have a single member; and **listed companies**, whose shares are traded on stock exchanges.

The **formation of a company** involves several legal steps, beginning with the selection of a suitable name and the preparation of incorporation documents. Two fundamental documents, the **Memorandum of Association (MoA)** and the **Articles of Association (AoA)**, are essential to the company's structure. The MoA outlines the company's objectives and scope of activities, whereas the AoA defines the internal rules and regulations for managing the company. Another important document is the **prospectus**, especially for public companies, which is used to invite the public to subscribe to shares or debentures. It must contain all material facts to enable investors to make informed decisions.

Directors are key individuals responsible for managing the affairs of the company. They are appointed according to the procedures laid down in the Companies Act and the company's AoA. Directors have several **powers**, such as controlling operations and making strategic decisions, and **duties**, including acting in good faith and avoiding conflicts of interest. They also carry **legal liabilities**, particularly in cases of mismanagement, fraud, or violations of statutory duties.

Company meetings play a crucial role in corporate governance. These include statutory meetings, annual general meetings (AGMs), extraordinary general meetings (EGMs), and board meetings. Each type of meeting serves a specific purpose, such as discussing annual performance, approving dividends, or making important corporate decisions. The **auditor** of a company is appointed to inspect and verify the company's financial records. Auditors have the right to access all books of accounts and must ensure that financial statements present a true and fair view. They can also be held **liable** in cases of professional negligence or fraud.

Finally, companies may undergo **winding up**, which refers to the legal process of closing the company and distributing its assets. This can occur voluntarily (by members or creditors) or compulsorily through a tribunal order. The consequences include the cessation of business activities and settlement of debts and liabilities.



Answer to multiple choices question (M -III)

1-b - Ethical and transparent business operations

2-b - Use of confidential information for trading

3-b - Reporting unethical practices

4-a - Enron

5-b - Misuse of market dominance

6-a - Ecomagination

7-c - Preventing fraud and corruption



MODULE 4 SALE OF GOODS ACT & CONSUMER PROTECTION ACT

Structure

Unit 4.1 Sale of Goods Act

Unit 4.2 Consumer Protection Act

OBJECTIVES

- What is a contract of sale? Describe the basic elements of a contract of sale.
- Distinguish between sale and agreement to sell and its legal implications.
- Explain the difference between conditions and warranties in a contract for sale.
- Discuss the rights and remedies of an unpaid seller under the law.
- The objective and Key Definitions of the Consumer Protection Act.
- Explain the purpose and objectives of the Consumer Protection Council and the State Consumer Protection Council in the protection of rights of consumers.

UNIT 4.1 SALE OF GOODS ACT

1. Essentials of a Contract of Sale

The Sale of Goods Act, 1930 provides the legal framework for the transfer of ownership of goods from a seller to a buyer. Its main purpose is to ensure that sales transactions are valid, enforceable, and governed by clear rules. A key aspect of the Act is understanding what constitutes a valid contract of sale. Essentially, a contract of sale is formed when the buyer and seller mutually agree on the price and the seller transfers the ownership of goods to the buyer. Contracts of Sale under this Act can be classified into two types: sale and agreement to sell, depending on the timing of the transfer of ownership. **Sale:** A sale is a transaction that is immediately effective, meaning the ownership of the goods passes to the buyer right away. This makes the contract fully enforceable at the moment of transfer. **Agreement to Sell:** In contrast, an agreement to sell is a contract where the transfer of ownership is set to occur in the future or is conditional upon certain events. The ownership does not pass immediately but is expected to take place later, subject to the fulfillment of agreed-upon conditions.



Figure 4.1.1: Essentials of a Contract of Sale

The following essentials are required to make a valid contract of sale:



1. **Two Parties (Buyer and Seller):** A purchase contract for a good at least two parties, the seller (who is divesting itself of the thing) and the buyer (who is receiving the thing). Both sides must be competent to make a contract, i. e., not minors or persons mentally incompetent
2. **Goods:** The subject matter of the contract is the goods. Goods –objects that can be touched and moved. The products may be either goods (existing or future) or services.
3. **Transfer of Ownership:** The key feature that sets a sale apart from other types of contracts is the passing of ownership from the seller to the buyer. The agreement should clearly indicate that ownership will change hands, and it must specify the price or consideration for the transaction. Generally, this transfer occurs at the time and place agreed upon by both parties. If no specific arrangement is made, ownership usually passes when the goods are
4. delivered to the buyer.

Price: A valid sale contract requires a price, which is the consideration for the transfer of ownership. The price must be definite or capable of being determined. If no price is mentioned, the law assumes the price to be the market price at the time of sale. The price must not be illusory or based on a condition

5. that prevents it from being fixed.

Mutual Consent: Like any other agreement, a sale contract comes into existence only when both parties willingly consent. The buyer and the seller must mutually accept the key terms, such as the details of the goods, the

6. agreed price, and the delivery schedule.

Intention to Transfer Ownership: At the moment the contract is formed, both the buyer and the seller need to have a clear intention to transfer ownership of the goods. This intent is usually reflected in the contract itself, often through

7. clauses that address delivery, payment, and the allocation of risk.

Legality of the Goods: The goods involved in the sale must not be illegal or forbidden by law. A contract involving the sale of prohibited or stolen goods is not enforceable under the Sale of Goods Act. Additionally, the goods must not violate public policy or be subject to restrictions under any other law.

2. Sale vs. Agreement to Sell

Two fundamental terms which are used in this regard are sale and agreement to sell. The distinction is one of transfer of ownership and the parties' purposes. A contract for sale of goods is a contract under which the property of the goods is transferred from the seller to the buyer unconditionally[4] and in which the buyer has the right of disposal over the goods. It is a completed purchase and the purchaser is entitled to the goods and may use them without any further liability to the seller. An agreement to sell, meanwhile, provides for a contract where an asset will have its ownership transferred at a date or upon the fulfillment of certain conditions in the future. Ownership does not transfer as it would in a sale, rather it is deferred until the terms have been met or the time has expired.



Figure 4.1.2: Sale VS Agreement to Sell

A sale operates to transfer title, and risk of loss, to the buyer immediately. That however is beside my point, which is that the risk loss passes to the buyer irrespective the products being in course of transit or not already delivered. On the other hand, in the case of sale, the risk passes to the buyer while the goods remain in the hands of the seller, as the ownership in the goods still continues with the seller. This distinction impacts what remedies



each side can pursue in the event of breach of contract. In the case of a sale, the seller has the right to sue for the purchase price or claim damages if the buyer fails to make payment, even if the buyer argues that they do not have possession of the goods. Under a contract of sale, the seller cannot claim unliquidated damages or demand specific performance; however, they can sue for the price once the property has been transferred. This distinction also plays a crucial role in determining whether a contract qualifies as a “sale” or an “agreement to sell” under the Sale of Goods Act. A sale represents an executed contract, whereas an agreement to sell is an executory contract, meaning it is intended to be completed at a future date. This difference is important for resolving disputes, determining the timing of payment and performance, and defining the rights and responsibilities of the parties. Furthermore, the rights and obligations arising from a sales contract can be subject to certain conditions, and either party may have the option to rescind the contract if specific procedures are not properly followed.

3. Condition vs. Warranties

Distinction between condition and warranty is also worth considering and significant in contract law, especially under the Sale of Goods Act, as it is helpful in determining the rights and obligations of the contracting parties. A condition is a term which is fundamental in the sense of being of such importance that to remove it would be to transmute the nature of the contract. It is a clause, the breach of which would entitle the party not in breach to repudiate the contract and claim damages. Conditions are important for the completion of the contract, and can be an essential part of a contract; if these are not met then the contract may fail as the purpose of the contract may no longer exist. One clause in a contract could be, for example, that the car sold in a car sale contract, should be roadworthy. The right to refuse the car and rescind the contract if the car is not in a roadworthy condition on delivery. A warranty, contrastingly, has to be less detrimental to the performance of the contract as a whole than a condition would be. Although an injury from breach of warranty is not a cause for rescission of the contract it constitutes a claim for damages. In the example of the car sale above, if the seller claims the car recently has a new paint job, but the paint is slightly damaged, then the warranty is probably a breach. While the

buyer cannot refuse the car, they may be entitled to some compensation for the paint damage. The difference between conditions and warranties is one of the main implications for relief in the event of a breach. If a term is violated, the contract can be terminated and damages can be claimed. But when a warranty is breached, the contract still exists and the only remedy available is a claim in damages. Depending on the circumstances of the transaction and the expectations set by the parties, terms of a contract may be characterized as being implied conditions, or implied warranties. So, for example, certain terms, such as the goods being of satisfactory quality, are implied as a matter of law in a sale of goods contract. A party can also by their conduct or assent elect to treat a breach of condition as a breach of warranty, thus waiving their right to terminate the contract. The distinctions between the legal treatment of conditions and warranties may depend on these terms across jurisdictions, but for the most part, the principle is the same, that conditions are more fundamental to the performance of a contract in comparison to warranties.

4. Rights of an Unpaid Seller

A seller who has sold goods without full payment received is known as an unpaid seller. The Sale of Goods Act protects the rights of an unpaid seller providing various remedies to be adopted in case of non-payment. Aspects Yellow things are important to guarantee that the seller has legal means to demand payment and to avoid that the buyer gets rich without having to pay the seller. Broadly, the rights of an unpaid seller fall in two categories i.e. against the goods and against the buyer personally. The first set of rights is the right to lien. The unpaid seller may keep possession of the goods until he has received or tendered the price. New cancellation rights exist until the goods can be delivered, and can be exercised even if the goods are already in transit, where they remain under the control of the seller. The seller also has the right of stoppage in transit. Another situation would be if the goods have been delivered to a carrier but not yet to the buyer, and the seller becomes aware that the buyer is insolvent; in this situation, too, if the seller is aware

that the buyer is insolvent, they can stop the goods from being delivered and repossession can take place. The main purpose of this right is to safeguard the seller in situations where the buyer fails to pay for the goods. One aspect of this protection allows the seller to sue for the price of the goods or claim compensation for non-payment. If the buyer has already taken possession of the goods but has not made payment, the seller can still pursue the buyer for the price, whether or not the goods have been delivered. This ensures that the seller receives payment even when the buyer does not fulfill their obligations. When the goods have been delivered and the price remains unpaid, the seller can also claim damages for the loss caused by the breach of contract. This may include the cost of the goods, interest, and any consequential losses resulting from the buyer's default. Additionally, the right of rescission allows the seller to treat non-payment as a breach of contract, giving them the option to cancel the agreement and demand the return of the goods. However, the seller's ability to enforce payment or reclaim the goods depends on the terms outlined in the contract and the applicable provisions of sales law. In some cases, such as when goods are delivered under a credit arrangement or the seller has already initiated proceedings to recover the price, certain rights like lien or stoppage in transit may be restricted. Overall, the remedies available to an unpaid seller are varied, ensuring that they are not left without recourse if the buyer fails to pay.

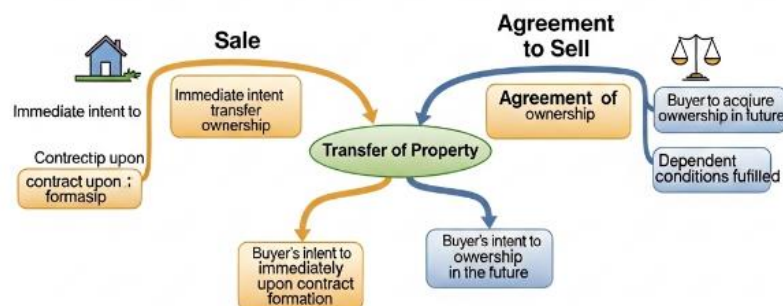


Figure 4.1.3: transfer of property

UNIT 4.2 CONSUMER PROTECTION ACT

Consumer Protection Act Honors the rights participants of this market; Fifth right... consumer can demand information about the quality or level of performance. Consumer Protection Act The consumer protection act is more widely considered to be one of the most important legislations that was implemented in India. The act is intended to protect consumers more effectively, encouraging and enabling their awareness of their rights. The Consumer Protection Act came into force in 1986, aimed at providing a mechanism for redressal and grievance against defective goods, unfair trade practices and deficient services to consumers. This was in response to the growing demand of consumer protection in an ever-growing marketplace and the growing complexities in business transactions. Since its enactment, this law has been amended multiple times, the latest being the updates in 2019 which took strong steps to bring the provisions in line with the digital age and international standards. It aims to provide a legal framework that protects consumer rights, such as providing the right to safety, the right to be informed, the right to choose and the right to seek redressal. The main feature of Consumer Protection Act is setting up of consumer Redresses, Forum and Commission at the district, state and national levels to decide upon the disputes. This includes District Consumer Disputes Redressal Forums (DCDRF), State Consumer Disputes Redressal Commissions (SCDRC) and National Consumer Disputes Redressal Commission (NCDRC) acting as judicial bodies hearing consumer complaints.

This is the section where you paraphrase a paragraph or two or whatever makes it look like you're actually writing something. Under the Consumer Protection Act, businesses are obliged to provide adequate information to consumers about products services including information related to quality, quantity, price and risk. The law prohibits unfair trade practices such as misleading advertisements, false labeling, and deceptive practices that ma



affect the consumer's interests, and therefore, in this respect, the nature of the said concerns is prohibited. The 2019 amendment added provisions to address new consumer protection challenges and increased the obligation on online businesses to provide a similar level of consumer protection to that which would be available in traditional physical markets in response to the continued growth of ecommerce and online shopping platforms. Consumer Protection Council One important element of the Consumer Protection Act is the creation of a Consumer Protection Council to provide advice on the Promotion and protection of the interest and rights of consumers. The council guides the government in protecting consumer rights and building a consumer culture. In addition, the Act also allows the creation of a Central Consumer Protection Authority (CCPA) empowered to take Suo-motu action against unfair trade practices and false or misleading advertisements. It has sweeping authority — to issuing injunctions, to imposing fines, to even prohibiting products and services that it deems potentially dangerous to the consumer or an infringement on their rights. It is a promising trend where not only which The consumers are not furnished a post-mortem remedy but bit, where the consumers are pre-empted from being exploited in the first place.

This is based on the "Consumer protection_act" that all consumers has rights and are not used by businesses. It serves as legal framework for consumers to be compensated and heard via recourse, assures fairness on the markets and raises the awareness of their rights. The Act has also been supplemented to support the digital environment that has developed since its enforcement, and to strengthen the regulation against unfair practices in electronic commerce and online services. With its broad philosophy, Consumer Protection Act resembling one of the most profound columns in the pantheon of India's legal system has tried to equal the opinions of both the parties with the aim of public welfare, which simultaneously does not cause any disadvantageous effect on the part of consumers and the traders.

1. Objectives & Key Definitions

Introduced in 2019, it is a landmark legislation that seeks to protect the interests of consumers in India and gives them a framework for addressing grievances and disputes. It was enacted with a view to protecting consumers from various unfair trade practices, exploitation, and ensuring the availability of quality goods and services. This was developed to meet changing market dynamics and challenges brought on by contemporary trade practices. It provides for the establishment of District, State, and National Consumer Dispute Redressal Commissions as well, which allows for a strong mechanism of resolution for any complaints by consumers. Protection of consumer rights, right to be informed, right to seek redressal is the main focus area of Consumer Protection Act, 2019. The provisions underlying this Act seek to encourage ease for consumers to approach courts or forums to enforce redress and compensation and seek the desired quality of its products or services, thereby holding manufacturers or service providers accountable. It further focuses on consumer education to make consumers more aware, conscious and apprised of their rights which is ultimately going to promote consumer welfare in the long run.

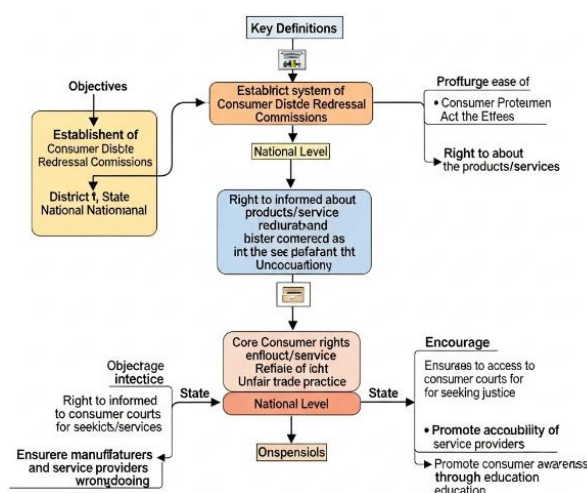


Figure 4.2.1: Objectives & Key Definitions

Consumer Protection Act Definitions Consumer Protection Act Definitions Under the definition section of the consumer protection act, several terms are defined. A person who purchases goods and services for personal use and not for resale or commercial purposes. It is inclusive of users who have used services for personal use. Consumer rights under the Act include the right to be safe, the right to be informed, the right to choose and the right to seek redressal. The Act also defines 'unfair trade practices' as misleading practices by traders or service providers to mislead consumers to obtain undue gain. The other crucial terms from the Act include defective goods, deficiency in services and unfair contract terms to help protect consumers from exploitation and unfair practices in the market. The Act applies to goods and services available on or offline, such as through e-commerce, at the right level for the digital age that makes consumers be less of a part of the economy. Hence this Act also brings a new concept to be known as the 'Central Consumer Protection Authority' (CCPA), which was given the power to take Suo-motu actions against unfair trade practices and false advertisements. CCPA seeks to check and wade off such practices and scrutinize the activities that can prove harmful to the consumer segments, notably, in the digital segment. This multifaceted strategy ensures that consumers are not just safeguarded legally, but also equipped to make informed decisions, thereby promoting a balanced and competitive marketplace.

1. Consumer Protection Council & State Consumer Protection Council

The Consumer Protection Act, 2019 provides for two critical authorities, namely the Consumer Protection Council and the State Consumer Protection Council. Consumer Protection Councils were formed to aid in advocating and safeguarding the interests of consumers, monitoring their rights, and upholding and advancing the provisions of consumer protection laws. The Consumer Protection Council is a national body that is created at a centralized level and serves the main purpose of educating and advising the government on consumer protection issues. It is part of raising awareness of consumer rights, improving the quality of consumer

services, and ensuring that consumer interests are sufficiently explored in policy decisions. The Council is an advisory body to the central government that advises the government in improving its consumer welfare policies and enabling it to formulate more consumer-centric policies and frameworks.

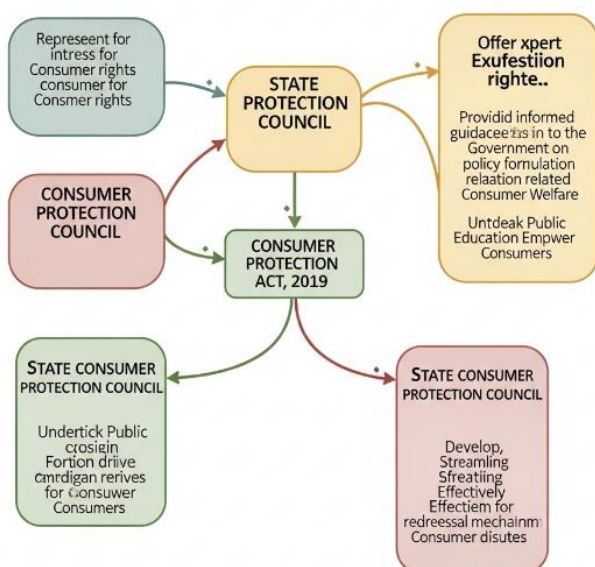


Figure 4.2.2: Consumer Protection Council & State Consumer Protection Council

The Consumer Protection Council is a department under the Ministry of Consumer Affairs, Food, and Public Distribution. It collaborates closely with other governmental and non-governmental organizations, and consumer protection advocates, to identify issues of significance to consumers as they arise and provide recommendations for their resolution. Consumer Issues the Council deals with consumer education, fair trade practices, product safety, and environmental issues impacting consumers. The Council operates on a national level to ensure that consumers have a voice across multiple sectors, including health, education, finance, and technology. It also helps to strengthen the grievance redressal mechanism so that consumer complaints are redressed in an effective and timely manner. The state level has an active body in the form of the State Consumer Protection Council which further works towards achieving the



me goals of the Consumer Protection Act. In every particular state or union territory, one such body known as the State Consumer Protection Council is formed, which is responsible to promote and protect the consumer rights within the specific state or union territory. State Consumer Protection Council (SCPC); Though its role is similar to that of the national body, it deals with regional matters relevant to local consumers. They are an advocate for proper enforcement of the Consumer Protection Act in state and conduct campaigns on consumer education and coordinate with state level institutions on consumer issues. It further provides the state government with advice on measures that can be taken to enhance consumer protection and recommends the actions that may be undertaken to address consumer grievances at the State level. Together, the Consumer Protection Council and the State Consumer Protection Council safeguard consumer rights and facilitate the resolution of disputes and grievances. These councils play a crucial role in promoting awareness of consumer rights and addressing malpractice in the marketplace to create a consumer-friendly environment in India. They also serve as a voice for consumers to air their concerns, as well as advocating for consumer empowerment at the national and state levels.



Case Studies

Case Study 1: Sale of Goods Act – Sale vs. Agreement to Sell

*Case: *Rowland v. Divall (1923) 2 KB 500*

Facts:

- A buyer purchased a car from a dealer and paid the full price.
- Later, it was discovered that the dealer did not have ownership rights to sell the car (the car actually belonged to another person).
- The true owner recovered the car from the buyer.
- The buyer sued the dealer to recover the purchase price.

Issues:

- Whether the transaction was a sale or an agreement to sell, and what rights the buyer had when the seller had no ownership.

Judgment:

- The court held that since the dealer had no ownership, the buyer did not get valid title.
- Under the Sale of Goods Act, ownership (property) must pass from seller to buyer for it to be a sale.
- Since no property could pass, it was merely an agreement to sell, not a valid sale.
- Buyer was entitled to recover the full price.

Principle:

- *Sale* transfers ownership immediately.
- *Agreement to sell* means transfer will happen in future or on condition.
- If the seller has no title, no valid sale can take place.

Case Study 2: Sale of Goods Act – Condition vs. Warranty

*Case: *Baldry v. Marshall (1925) 1 KB 260*

Facts:



- A buyer asked a car dealer for a car suitable for touring purposes.
- The dealer sold a “Bugatti” car.
- The car was not suitable for touring, though otherwise in good condition.
- The buyer sought to reject the car and claim refund.

Issues:

- Whether the term “suitable for touring purposes” was a condition or a warranty.

Judgment:

- The court held that fitness for purpose was a condition under the Sale of Goods Act.
- A condition goes to the root of the contract. If breached, the buyer can reject goods and claim refund.
- Since the car was not fit for touring, the buyer was entitled to reject it.

Principle:

- Condition → fundamental to the contract, breach allows repudiation.
- Warranty → subsidiary term, breach only gives right to damages, not repudiation.

Case Study 3: Consumer Protection Act – Rights of Consumer

*Case: *Indian Medical Association v. V.P. Shantha* (1995) 6 SCC 651

Facts:

- Patients approached the court arguing that medical services should come under the scope of “services” in the Consumer Protection Act, 1986.
- Medical associations opposed, claiming that medical treatment is not a “service” but a professional duty.

Issues:



**Sale Of
Goods Act
&
Consumer
Protection
Act**

- Whether medical services fall within the definition of “service” under Section 2(1)(o) of the Consumer Protection Act.

Judgment:

- The Supreme Court held that medical services provided for consideration (payment/fees) fall under ‘service’.
- Patients are consumers, and they can seek redressal under Consumer Protection Act in cases of medical negligence.

Principle:

- Expanded scope of consumer rights in India.
- The Consumer Protection Councils at central and state level can safeguard patients against unfair practices by medical professionals.

SELF ASSESMENT QUESTIONS

MCQ's – M - IV

1. Ethical HR practices include:
 - a) Fair recruitment and compensation
 - b) Exploitation of labor
 - c) Workplace discrimination
 - d) Harassment
2. Marketing ethics emphasizes:
 - a) False advertisements
 - b) Consumer exploitation
 - c) Transparency and honesty
 - d) Price cheating
3. Finance ethics prevents:
 - a) Insider trading and fraud
 - b) Budget planning
 - c) Employee relations
 - d) Product innovation
4. Production ethics involves:
 - a) Product safety and quality
 - b) Use of hazardous materials knowingly
 - c) Reducing safety to cut costs
 - d) Ignoring environmental rules
5. Ethical issues in emerging technology include:
 - a) Data privacy and cybersecurity
 - b) Transparent communication only
 - c) Outdated systems
 - d) None of the above
6. Green marketing emphasizes:
 - a) Fake environmental claims
 - b) Sustainable and truthful practices
 - c) Increased carbon emissions
 - d) Misleading consumers
7. Discrimination in HR is:
 - a) Encouraged for cost-cutting
 - b) Illegal and unethical
 - c) Common business strategy
 - d) Good for profits



SELF-ASSESSMENT QUESTIONS

Short Questions:

1. What is a contract of sale?
2. Distinguish between sale and agreement to sell.
3. What are conditions and warranties?
4. Who is an unpaid seller? What are their rights?
5. What is the object of the Consumer Protection Act?
6. What does the Consumer Protection Council do?
7. How is consumer protection favorable to the purchasers?

Long Questions:

1. Explain the concept of the contract of sale with examples.
2. Differentiate between conditions and warranties.
3. Discuss the rights of an unpaid seller.
4. Explain the role of the Consumer Protection Council.



MODULE IV - GLOSSARY

1. **Contract of Sale** – A legal agreement where the ownership of goods is transferred from seller to buyer for a price.
2. **Sale** – Immediate transfer of ownership of goods from seller to buyer.
3. **Agreement to Sell** – A future or conditional transfer of ownership.
4. **Goods** – Every kind of movable property other than actionable claims and money.
5. **Price** – The monetary consideration paid by the buyer for the goods.
6. **Condition** – A fundamental term in a contract; breach allows for rejection of goods.
7. **Warranty** – A secondary term; breach leads to claim for damages but not contract termination.
8. **Unpaid Seller** – A seller who has not received full payment or a negotiable instrument dishonoured.
9. **Right of Lien** – The seller's right to retain goods until full payment is received.
10. **Stoppage in Transit** – The seller's right to reclaim goods in transit if the buyer becomes insolvent.
11. **Right of Resale** – The seller's legal right to resell goods if the original buyer fails to pay.
12. **Consumer** – A person who buys goods or avails services for personal use, not for commercial gain.
13. **Consumer Rights** – Legal entitlements including right to safety, information, choice, and redressal.
14. **Unfair Trade Practice** – Misleading advertisements, false claims, or deceptive pricing.
15. **Product Liability** – Legal responsibility of manufacturers or sellers for defective products causing harm.
16. **Deficiency in Service** – Any fault or imperfection in the quality or manner of performance of a service.
17. **Consumer Protection Act, 2019** – Legislation designed to protect consumers and provide dispute resolution.
18. **Central Consumer Protection Council** – Advises the central government on consumer protection policies.
19. **State Consumer Protection Council** – Promotes consumer rights and assists in state-level consumer issues.
20. **District Commission** – First level of consumer grievance redressal forum at the district level.
21. **State Commission** – Handles appeals and higher-value cases at the state level.



22. **National Commission** – Apex body for consumer disputes, with jurisdiction over high-value or appeal cases.
23. **Right to Redressal** – Consumer's right to seek compensation for defective goods or services.
24. **Right to Be Heard** – Right to express consumer grievances and have them addressed fairly.
25. **Right to Information** – Right to receive complete information about the product or service before purchase.



MODULE IV - SUMMARY

The **Sale of Goods Act, 1930** governs contracts relating to the sale and purchase of goods in India. A **contract of sale** involves a transfer or agreement to transfer the ownership of goods from a seller to a buyer for a price. This contract may be absolute or conditional, and can involve either existing goods or future goods. The essential elements of a valid sale include two parties (buyer and seller), goods, transfer of ownership, price, and mutual consent. A key distinction is made between a **sale** and an **agreement to sell**—the former involves an immediate transfer of ownership, while the latter indicates a future transfer contingent on certain conditions. This distinction is crucial because the legal rights and remedies differ: in a sale, the buyer has ownership and can claim damages, whereas in an agreement to sell, the seller retains ownership until conditions are fulfilled.

Another important aspect of a contract of sale is the difference between **conditions** and **warranties**. A condition is a fundamental term of the contract; its breach gives the aggrieved party the right to reject the goods. A warranty, on the other hand, is a subsidiary term; its breach entitles the buyer to claim damages but not to reject the goods. The Act also addresses the rights of an **unpaid seller**, who is one that has not received full payment. Such a seller is entitled to certain remedies, including the right to **lien** (retain possession of goods until payment), **stoppage in transit**, and **resale** under specific circumstances. The unpaid seller also has a legal right to sue for the price or damages for non-payment.

The **Consumer Protection Act, 2019** was enacted to safeguard the interests of consumers and to establish authorities for effective grievance redressal. The Act defines a **consumer** as anyone who buys goods or avails services for personal use and not for resale or commercial purposes. It aims to protect consumers from unfair trade practices, defective goods, and deficiency in services. It introduces concepts like **unfair contracts**, **product liability**, and the right to seek compensation through consumer forums.

The Act also establishes consumer protection councils at the central and state levels. The **Central Consumer Protection Council** advises on policies related to consumer welfare, while the **State Consumer Protection Council** promotes consumer rights within the state. These bodies play an advisory role and work to ensure that consumers are informed, heard, and protected. Additionally, the Act sets up a three-tier redressal mechanism—District, State, and National Consumer Disputes Redressal Commissions—for resolving consumer complaints efficiently. Overall, the Act empowers consumers by giving them the right to information, right to choose, right to redressal, and right to be heard.

Answer to multiple choices question (M - IV)

1-a - Fair recruitment and compensation

2-c - Transparency and honesty

3-a - Insider trading and fraud

4-a - Product safety and quality

5-a - Data privacy and cybersecurity

6-b - Sustainable and truthful practices

7-b - Illegal and unethical



MODULE 5 IT ACT & RTI ACT

Structure

Unit 5.1 The Information Technology Act, 2000

Unit 5.2 The Right to Information Act, 2005

OBJECTIVES

- What is meant by the scope and applicability of the Information Technology Act, 2000?
- Explain ‘digital signatures’ What is their importance in e-governance?
- Be familiar with the legal structure pertaining to electronic documents and the digital signature verification.
- Discuss the importance of the Right to Information Act, 2005 and elucidate its salient features.
- Awareness of the responsibilities of public authorities in the promotion of transparency and accountability.
- Explain how information is sought and obtained under the RTI Act.
- Describe the role and functions of the PIO.
- Examine the exemptions from disclosure contained in the RTI Act.
- Explain the functions of Information Commissions and Appellate Authorities with respect to the implementation of the RTI Act.
- Know the punishment for default and which courts would have jurisdiction in RTI cases.

The **Information Technology Act, 2000 (IT Act, 2000)** is an important act passed by the Government of India for addressing the legal and regulatory aspects of information technology and its applications in the digital world. It is also meant to facilitate digital transactions, e-governance, and e-commerce and is intended to lay down the ground rules for doing so. Over the years, the Act has been amended, the last one being in 2008, which is similar to other laws that maintain relevance in the rapidly changing technological landscape.

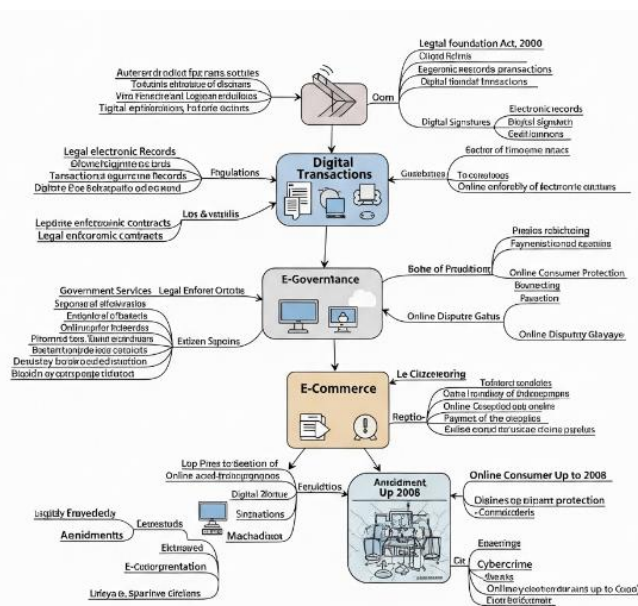


Figure 5.1.1: Information Technology Act, 2000

1. Information Technology Act, 2000: Definition & Scope

These definitions include terms like "electronic records", "digital signatures" and "electronic governance" to provide a clear legal framework to ease the business



and communication over the digital world. The Act is primarily aimed at encouraging e-commerce by granting legal status to electronic records and digital/electronic signatures which increase the trust and security of digital transactions. And ensuring that cybercrimes do not seep into the digital world, the Act is meant to manage digital space and electronic commerce. The law is applicable throughout India and contains extraterritorial jurisdiction clauses, which are in line with regulating cross-border electronic transactions. The Act deals with many issues, from the legal recognition of electronic records to punishment for cybercrimes. It involves the storage, transmission and retrieval of data and information so as to cover a wide range of information technology. The Act further provides for appointment of Controller of Certifying Authorities who will regulate Certifying Authorities that would issue the digital certificate needed to validate the digital signature. Implementation of the IT Act: The IT Act covers the regulation of electronic contracts, the recognition of digital signatures, and the establishment of a Cyber Appellate Tribunal for dispute resolution, as well as the punishment of cybercrimes such as hacking, identity theft, cyber terrorism, and data breaches. The Act criminalizes a number of illegal acts including, but not limited to, cyberstalking, phishing, cyber fraud and violations related to sensitive personal data. With these measures, the IT Act embraces comprehensiveness in addressing the legal challenges presented by the digital world.

2. Digital Signature & Electronic Governance

Some of the key components of the IT Act are digital signatures. Introduction to digital signatures digital signatures is introduced to prove the authenticity of digital records or transactions. A digital signature is a mathematical scheme for verifying the authenticity and integrity of a message, data, or document. Digital signatures use public key cryptography, providing a more secure alternative to handwritten signatures. Under the IT Act a digital signature is equivalent to a handwritten signature. This will prove that a sender of a message is really who he claims to be, and a content of a message or document is not changing over time. It establishes a legal framework for the use of digital signatures, and designates

Certifying Authorities (CAs) to issue digital certificates to individuals and organizations, allowing them to digitally sign documents. At its core, a digital certificate is a statement that validates the identity of the holder of the digital signature and can be used for encrypting messages to maintain their confidentiality and integrity. The PKI, or Public Key Infrastructure, which provides the basis for how digital certificates and digital signatures are used, helps secure transactions and communication digitally.

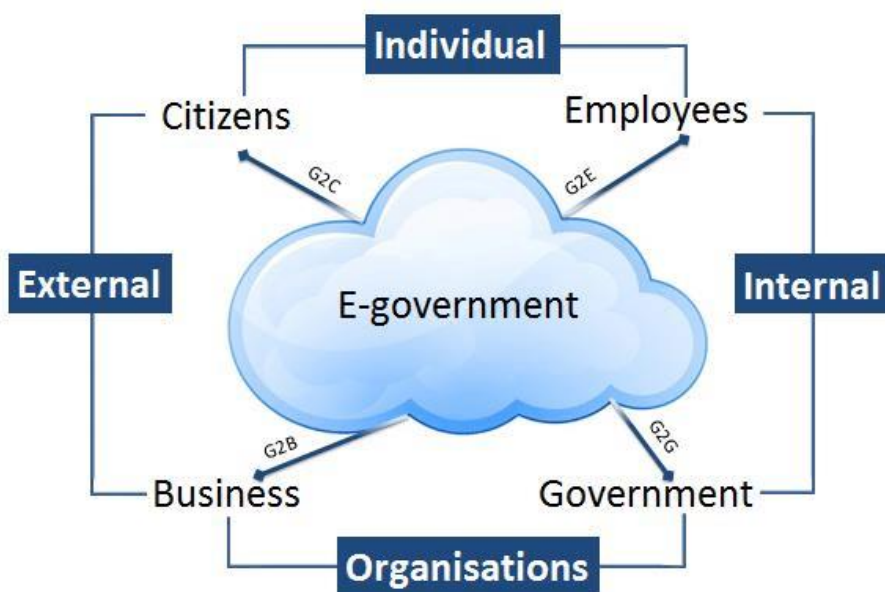


Figure 5.1.2: Digital Signature & Electronic Governance

The IT Act is relevant in the sphere of electronic governance (e -Governance) where it seeks to improve the transparency, accountability and effectiveness of government services through the acceptance of digital records and signatures in government transactions. Digital Signatures have enabled government departments and agencies to offer services online; thus, minimizing paperwork and simplifying administrative processes. Online tax filing, digital certificates for citizens and electronic forms for government services, all are e-Governance initiatives enabled due to the provisions of the IT Act. Electronic governance comes with a wide range of areas such as online voting, e-filing of documents, e-



taxation, e-business transactions. Through Digital Technologies, Government can provide services in an efficient manner, create less scope for corruption. Use of e-signatures and digital certificates in e-governance make it easier for citizens to access to public services remotely, increasing accessibility and reducing barriers to government interactions. For example, individuals can file income tax returns, apply for licenses, or even vote in online elections without the need to physically visit government offices.

3. Electronic Signatures and Electronic Records

The second vital element of the Information Technology Act, 2000 is electronic records. The Act also indirectly gives a legally valid presence to electronic records as a paper-based record. This allows electronic documents, contracts and communications to be legally binding and enforceable on the same basis as their physical counterparts. IT (Intermediary Guidelines and Digital Media Ethics Code) Act has enabled legal validity of electronic records to make the businesses and individuals generate transactions, agreements and contracts online which was considered to be under grey area. The IT Act ensures the integrity and confidentiality of these records, enabling them to be used in various legal, financial, and commercial activities. You might be wondering; What is a digital signature anyway? Digital signatures are fundamental to electronic records integrity, as you read about above. They are used to confirm that the contents of an electronic record have not been changed when an electronic record is transmitted and to verify that they were created by the individual or entity whose signature appears on the document. Business and Legal Provisions Electronic Records and Electronic Signatures Speculative answer for your question; In the case of electronic contracts, both the terms of the agreement and the identity of the parties the agreement can be verified by using digital signatures. Under the IT Act, electronic record means; data, information or record created, received or stored in an electronic form. It also establishes that electronic records may be utilized to form contracts that hold legal significance, so long as those records meet certain criteria for validity. The Act states that, if a transaction is going to be

conducted electronically, the record of that transaction must exist in a way that is not only comprehensible, but also viewable, retainable, and able to be retrieved. Act also provides for the way to verify or authenticate electronic records in the event of a dispute about their authenticity. "But the digital signatures used to authenticate electronic records ensure that they are tamper proof, and the people or companies behind the records can be held accountable for what is showing in their records.

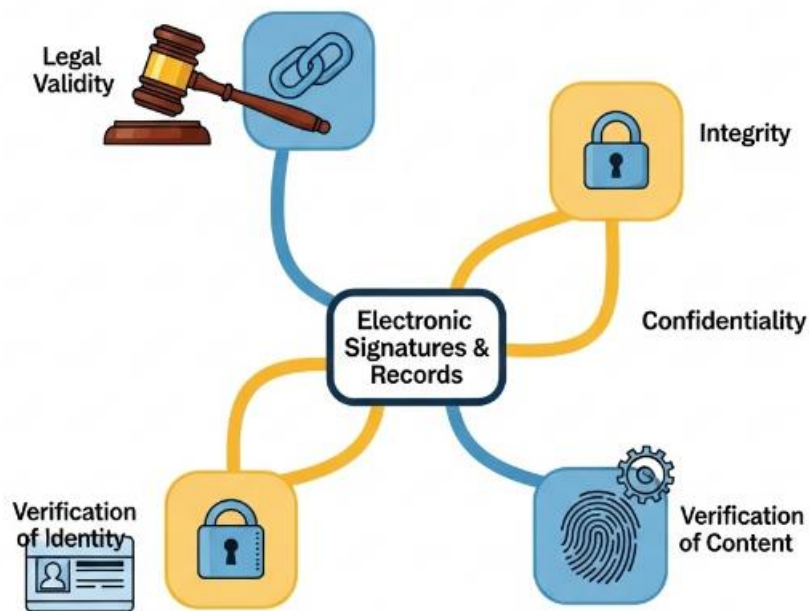


Figure 5.1.3 : Electronic Signatures and Electronic Records

Especially in e-commerce and financial transactions, where the security and integrity of electronic records matters a lot. The digital signature mechanism used in respect of the IT Act is a two-component system comprising a private key and a public key. The public key is used to validate the signature, whereas the signer uses their private key to sign the electronic record. IT Act asand What Is Next Steps and Consequently, With the evolution of technology and changing



dynamics, the IT Act also envisages amendments for addressing the new age challenges with respect to digital transaction and cybercrimes. This encompasses the acceptance of secure electronic records, and the ongoing evolution of the law to accommodate new advances in cryptography, data protection and cybersecurity. As a result, the law is always being updated to include new forms of digital crime, including identity theft and cyberbullying, as well as to make sure that digital records are protected from bad actors. The Information Technology Act, 2000; Its importance in the context of digital India the Act's sections relating to digital signatures, electronic records, and electronic governance provide a strong, secure, and flexible framework for digital transactions, records, and communications that can adapt to the evolving requirements of technology.

UNIT 5.2 THE RIGHT TO INFORMATION ACT, 2005

5.2.1 Right to Know & Salient Features

The Right to Information (RTI) Act, 2005 one of the most progressive laws in any democratic country, that empowered citizenry with the right to information. This right has been guaranteed by Articles 19(1)(a) of the Indian Constitution that protects the freedom of speech and expression. This constitutional entrenchment gets fleshed out through the RTI Act, enacted on which provides a framework to promote transparency and accountability in the working of the government. The Act lays the foundation for a more responsive and responsible governing system, encouraging greater citizen engagement with democratic processes by enabling citizens to access information from government bodies. The RTI Act ultimately attempts to form a knowledgeable public that can monitor the government and seek accountability in its acts. Before the Act, there were few mechanisms for average citizens to check in on the official information, or scrutinize government decisions or policies. The RTI Act has some prominent features that make it iconic in ensuring accountability of the government and empowering the citizens. To allow a smooth transition over to the next key feature of the Act, the first aspect to touch on is its general scope. The RTI Act extends to not only all government ministries and departments but also to constitutional bodies, public sector undertakings, and non-governmental organizations that receive substantial financial assistance from the government. This power is far-reaching, and thus, many institutions will come under scrutiny from the public and be made accountable. Secondly, RTI Act provides a wide-ranging, all-encompassing access to information.



Figure 5.2.1: Right to Know

In the Philippines, citizens have the right to access information in any form, including documents, records, emails, opinions, and even advice, that is held by public authorities. Such access is subject to limitations under the Act, including those related to national security or personal privacy. Nevertheless, the Act is drafted so that it provides maximum transparency while also protecting sensitive information. The RTI Act also has a very important feature, i.e. time-bound response. Public authorities must where they can respond to information requests as soon as possible and at the latest 30 days after the application has been received. This is to ensure timely access to information for citizens, thus giving The Act a lot of teeth when it comes to holding the government accountable. Furthermore, if the information sought pertains to matters of life and liberty, the Act requires a reply within 48 hours, signaling that this is not only needed for governmental records, but also is respectively time-sensitive information. The fee structure that has been formulated under RTI Act is also instrumental in making RTI accessible. It says that it provides information under a nominal fee, which is affordable for all strata of society. This means that money cannot be used as an obstacle in getting access to government information, and, in essence,

empowers all sections of the society to avail their right to information. Thirdly, the Act promotes proactive disclosure by public bodies. RTI Act 2005 section 4 directs all government departments to make public information about their functioning, budgetary allocation and decision making on their official website. This is a proactive release, which saves people submitting requests and adds to transparency. The importance of RTI Act, 2005 in the Indian democracy: The legislation creates a legal right, and an associated legal process, for citizens to demand information, at no more than a limited cost, leading to greater government accountability, less corruption and more citizen participation in monitoring and controlling government decisions.

5.2.2 Obligations of Public Authorities

Public authorities under the Right to Information (RTI) Act of 2005 have a big role to play in making governance transparent and accountable. The Act mandates the institutions to perform several activities aimed at promoting the citizens' access to information, which serves as an instrument that supports the prospective pro-democracy and good governance. Through compliance with these obligations, the State authorities can also help create a more transparent government in which citizens can better determine their own interests and play a meaningful part in the democratic process. And let us now examine the major obligations emanating from the RTI Act, the compliance with which is expected from public authorities

Proactive Disclosure: This requires public authorities to maintain records of the work, decisions and policies current and available (Burke 1998). Public bodies do not merely wait for information requests from citizens, they supply information as a matter of course. The objective of doing this is to ensure transparent governance by preventing large number of RTI applications over time. Most of these public authorities are required to ensure that their records, decisions and other critical information is publicly available, including the websites of these authorities or



through notice boards, or in publications. Measures that must be proactively disclosed include the following:

- **Organizational Structure:** Public authorities should make available the organization as well as the hierarchy defined in an organization along with the roles and obligations of different officers and employees. Such transparency enables citizens to comprehend the power structure and decision-making mechanisms of the authority.
- **Functions and Responsibilities:** Citizens must be informed about the functions of the public authority, that what kind of services are in offer, the main objectives, areas of work, etc. Such knowledge fosters accountability and builds trust with the citizens, thereby enabling people to understand what to expect from an authority and how it serves public good.
- **Rules and Regulations:** Public authorities should share the rules, regulations, and procedures that are applicable to them. This practice keeps citizens in the know about the legal framework that guides decision-making and policy implementation.
- **Procedure for Accessing Information:** This process should be clear and understandable for the community members. This can be done, for example, in the form of making RTI application forms available and in a way so that citizens can file requests without unnecessary complexity. The publication of this information helps citizens avoid spending valuable time and resources on filing information requests with the public authorities.

Establishing a Public Information Officer (PIO)

The RTI Act requires every public authority to appoint a Public Information Officer (PIO) to assist with requests for information. The Public Information Officer (PIO) plays a vital role in this, as he/she is responsible for the proper implementation of the RTI Act. The PIO serves as a bridge between the government and the public, promptly receiving, processing, and responding to queries for information. The PIO must possess sound knowledge of RTI Act,

records held by the public authority and the procedure to deal with requests. If the PIO has been trained, they would be able to respond accurately with the time limit prescribed in the RTI, thus ensuring that all of the information provided is complete, relevant and most importantly, latest. If the information sought cannot be provided under the exemptions provided under the Act, the PIO should refuse to provide it after communicating the same clearly to the applicant with valid reasoning for refusal. A public authority designating a PIO as the touch point for providing information makes the entire process of obtaining information easy and creates a bridge between citizens and public institutions making it easy to access information and enhancing the responsiveness of public institutions.

Training of Personnel

One of the important details; the training to the personnel of the public authorities for effective RTI implementation According to the RTI Act, it is the responsibility of public authorities, among other things, to train staff to deal with information requests and the provisions of the Act. This training can cover things such as key provisions of the RTI Act, what type of information can be disclosed and the procedures for responding to requests. It is also important to create a culture by educating employees on the importance of transparency in governance and how the facilitation of the RTI process by them would promote accountability of the government. Public authorities need to create an open culture within the organization, so that staff regard the RTI as an important tool to empower citizens and promote good governance. In addition to PIO, not all team members will serve as a spokesperson, but they may interact with the public, and civil servants also need training to ensure that citizens get the right answer to the question. Also, if public authorities invest in training programs, they can limit the number of mistakes, delays and rejections in dealing with RTI requests.



Compliance with Time Limits

As per the RTI Act, there are very strict time limits within which information is to be provided in general within 30 days of receipt of application. Where the information asked for is related to the life or liberty of a person, the public authority has to respond within 48 hours. This time bar is a vital part of ensuring the public can access information in a timely manner. These time limits should be followed by public authorities so that they are transparent and accountable. In case the public authority does not respond within the time limit prescribed by the RTI Act, citizens can file an appeal with the Information Commission concerned which can then take corrective action. If it is proven that the delay was due to deliberate or negligent actions, then either the concerned public authority or the accountable PIO can be punished. A distinctive aspect of the RTI Act is the stricter adherence to the time limits; the time bound nature of the RTI Act made it an effective tool for citizen action. This promotes efficiency among public authorities and subjects such entities to scrutiny in instances of missed deadlines.

Public Awareness

Public authorities also have the responsibility to promote awareness of the RTI Act among citizens, contributing to their right to access information. Also, raising public awareness among citizens on the objectives of the Act is crucial to its achievement as it helps them exercise their right to information and access public authorities. Public authorities shall be responsible for educating citizens about their rights and the procedure of RTI application. Awareness can be spread through outreach programs by public authorities, through distribution of brochures and through websites that provide information on how to file RTI applications, etc. They must also ensure that application forms are widely available online or in person. Citizens need to know where and how to apply RTI applications, with fee structure and time taken to get a response. Also, Citizens

should be encouraged to use RTI Act by public authorities to show that the Act has a value that will lead to transparency and accountability in public life and participatory governance. Public awareness campaigns can also be focused on success stories where citizens have used the RTI Act to get valuable information or to hold public authorities accountable for their actions.

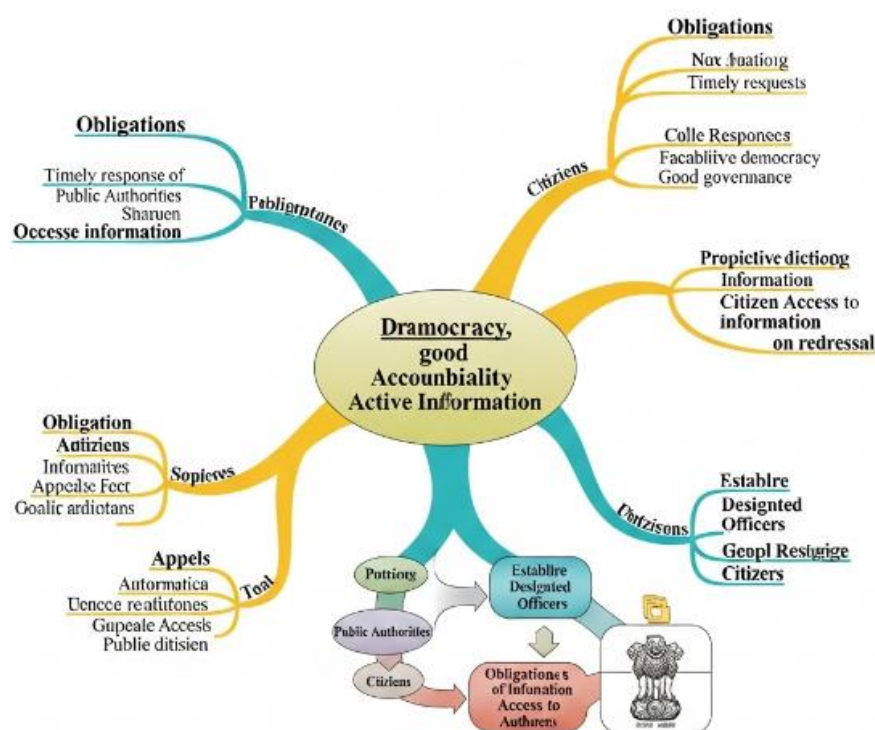


Figure 5.2.2: Obligations of Public Authorities

5.2.3 Request for Information

The **Right to Information (RTI) Act, 2005**, There is a law that enables any citizen in India to seek information from government authorities. This right to information is a key factor in combating against the growth of corruption and in ensuring accountability in governance. Under good, transparent, and revealing structures such as Right to Information, the criteria for requesting information are simple and accessible, which allows citizens to participate in the process of democratic governance and holds public institutions accountable for their actions.



The process allows citizens to request important information from public bodies, including not only government departments but also public sector organizations and local authorities. Stepwise guide on how to file an RTI request is given down below.

Filing a Request

A citizen needs to file a request before the concerned public authority with the relevant Public Information Officer (PIO) to start the process of information retrieval. A Public Information Officer or PIO (sometimes referred to as such) is an official required by law in most jurisdictions, to facilitate and handle information access under the RTI Act. A citizen seeking information Retube to filed the inquiry through the written application / request to the PIO. Although it is not required that you use a set format, the application should identify the information that the applicant is seeking. Make the request short and specific to minimize any misunderstandings. All this information is important to be clearly mentioned so that the PIO can conveniently trace out for what documents or records you are seeking. They might, for example, ask for copies of reports, records, policies or decisions made by a particular public authority. The RTI Act empowers citizens to seek information on a wide range of issues concerning public authorities, including but not limited to the performance of the government, decisions taken by government servants, and documentation of government transactions and operations.

Timeframe for Response

Under the RTI Act, there is a clear timeline during which the PIO has to respond to a citizen's request. Upon filing a request, the PIO has a time of 30 days from the receipt of an application. The limit is to ensure the citizens' right to information is delivered in time so that government functioning is efficient. If the requested information concerns an issue of life and liberty, for example information pertaining to a person's health or legal rights, the PIO must respond

within 48 hours. The purpose of this particular exemption is to facilitate the process when the information relates directly to an individual's personal welfare or safety. The applicant can file an appeal with the higher authorities or the Information Commission, in case a PIO does not respond within the stipulated time. To prevent any unnecessary delay in the process of requesting information if the PIO fails to comply with the provisions of the Act, the Information Commission can impose penalties.

Format and Language

There is no prescribed format or language under the RTI Act for the request. An information request can be filed by a person in English, Hindi, or any other official language of the relevant state's government. Public authorities can only deliver information on request in the language in which this information is available. Where a public authority has information available in a different language or format, they should make this information available in a language or format which the person requesting the information can understand, unless this is not technically feasible or is contrary to legal obligations. With respect to the format, an applicant may request the information to be provided as written records, papers, computer-based data, reports, electronic mail correspondence, other recorded forms of information, etc.

Fee Payment

The information in the RTI Act allows public authorities to charge a nominal fee for furnishing the information so long as it covers the costs incurred by a public authority to process a request. Fees may vary from one public authority to another, as each public authority is entitled to determine fees independently. That said, the fee should be a fair one and not create a financial impediment to any citizen who would like to exercise a right to information. Under the Act, it establishes a standard fee for various types of information. In general, fees for submission of an RTI request are low and may include costs for photocopy of



documents, printed material provided or any electronic records sought. Public authorities, for instance, might charge a fee per photocopied page of documents or a small amount for providing information electronically (email or CD). Also, the RTI Act made provisions that set the fees at a level that does not discriminate against lower-income groups. Section (3) of the Act also makes provisions for the waiver of fees in case of poverty. An applicant who cannot be paid the prescribed fees due to financial constraints may seek a waiver. This also allows individuals from economically challenged backgrounds to obtain public information and exercise their rights.

Reasons for Refusal

However, for the RTI Act to find a place in the statute book, public authorities may refuse to provide certain information but not all. Exemptions under RTI Act: Such situations are generally covered under exemptions provided in RTI Act which shield sensitive matters like national security, personal privacy and confidentiality of government decision-making processes. But in denied requests, the Public information officer (PIO) is supposed to provide specific reasons for denial (sec. 7(1) of the Act).

The refusal can occur under various conditions, including:

National Security: Any information which is related to security of nation, defense or sovereignty of India is exempted from disclosure under RTI Act. It may contain top-secret documents about military operations, intelligence agencies and sensitive state affairs.

Personal Privacy: Where the information sought relates to the privacy of an individual and is not linked to any public activity or interest, the exemption may apply. Yet, if information related to matters of public interest, i.e., that of corruption, abuse of power, is revealed, this may be permissible despite privacy violations.

Legal Restrictions: Information that is protected by court orders or other legal restrictions is exempt from disclosure.

In case the PIO denies the information, then the applicant can challenge the order by filing an appeal to higher authorities or to the Information Commission. The matter is very much pending with appellate authorities and they must examine the case in accordance with the provisions of RTI Act, whether refusal was justified or not? If the Information Commission concludes that the refusal is not justified, it can direct the public authority to supply the information demanded.

Duties of Public Information Officer (PIO)

The PIO is the most important pillar in the effective implementation of Right to Information (RTI) Act, 2005. The PIO plays a vital role in ensuring that citizens have access to information in a timely manner, upholding principles of transparency and accountability. Public Information Officers (PIOs) are specially appointed officers by public authorities to respond to and process requests made under the RTI Act.

Receiving and Acknowledging Requests

The principal role of a PIO is probably to receive RTI requests from citizens and to provide an acknowledgement. The PIO has to receive and accept every application, in writing or electronically. A request must be acknowledged by the PIO at the time it is received, generally by supplying the applicant with a receipt of acknowledgment. The receipt has two vital functions; To prove to the applicant that you caught the application and to make sure the applicant can follow the advancement of the request.

For solemnization, an acknowledgment should be given in writing with a reference number and receipt date of the application. This is important for the both parties as it helps keep track of request and also the information (attached work item) that needs to be processed within the defined timelines.

follow it up with the applicant immediately. Timely response to received applications also confirms citizen's faith in their right to information, and helps establish a transparent system right from the inception itself.

Determining the Applicability of Requests

The next step for the PIO once he/she receives the request is to ascertain whether the information being sought comes within the ambit of the RTI Act. Under the provisions of the Act, every citizen has the right to seek information from public authorities regarding their functions, decisions, policies and operations except for those specifically exempt under Section 8 or other relevant sections of the Act. It is incumbent on the PIO to examine carefully if the information sought in the application is readily available with the public authority and whether the information sought is disclosable information. In case the information sought is not held with the PIO or is not available the PIO, under Section 6 of the RTI Act is required to forward the same to the appropriate authority within five days. Also, the PIO must consider if the information requested is exempted from disclosure by the Act, e.g. on grounds of national interest, personal privacy, trade secrets etc. Otherwise, the PIO needs to give a reasoned reply stating the reason for not acceding to the request. Whereas if the PIO is not sure on either including or excluding the request, they should seek an opinion from the senior officials of the public authority to clarify.

Providing Information

If the information requested is found to exist and is not exempt from being made available, the PIO is obligated to provide it to the applicant. The RTI Act requires us to provide information within a stipulated time generally 30 days from the date of receiving a request. If the information requested deals with life and liberty, the response must be given within 48 hours.

Referring to the Appropriate Authority

In certain cases, the requested information might not be in possession or under the purview of the public authority that was approached. Where such a request is made, Section 6(3) of the RTI Act mandates the PIO to transfer the request to the proper public authority within five days. This way, it reaches the right department or authority who maintains the data. The PIO needs to transfer a request to the other government authority in an efficient manner and inform the applicant about such referral. The transfer should be carried out in a way that will not cause undue delay and the PIO must furnish the applicant with relevant information about the new public authority.

Exemptions from Disclosure

Here are seven very important RTI related things you should know about The Right to Information (RTI) Act, 2005. Nevertheless, the RTI Act also acknowledges that while transparency is essential, there may be a need to withhold certain sensitive information. In this regard, the Act lays out the exceptions under Section 8 which safeguard the disclosure of specific types of information. Such exemptions are necessary for preventing national security, privacy, potent economic interests, and more from becoming overly compromised in the name of transparency.

National Security

National Security: One of the most important exemptions under the RTI Act. Section 8(1) of the Act prohibits the disclosure of information with the potential to affect the sovereignty, integrity, or security of India. Examples may include sensitive military or defense-related information, intelligence operations, strategic defense initiatives, and national security policies. The logic behind



this exclusion is straightforward; In the wrong hands, some information can threaten a nation's security, jeopardizing its residents' well-being, or leave the its enemies with an unfair advantage. For instance, information about the movement of armed forces, military capabilities, defense procurement or clandestine intelligence activity is vital to the defense and security of a country. Because this information could lessen national defense strategies and exposes vulnerabilities against threats. Consequently, the RTI Act protects this such information from public access to protect national security and other interests, essential to ensure the country is in a position to ward away threats against its citizens and territorial integrity. The blanket exemption, as indicated, extends to any information which is potentially of significant relevance and strategic importance to the workings of several different security institutions, including Central Intelligence Bureau (CIB), Research and Analysis Wing (RAW), or other national security agencies. The Act does allow such agencies to establish minimum information necessary for oversight without compromising intelligence or ongoing investigations; however, many argue that it permits excessive secrecy surrounding the operations of intelligence and law enforcement agencies.

Personal Privacy

Section 8(1)(j) protects information, which, if disclosed, violates the right to privacy of the individual concerned. Any information of this nature that divulges personal aspects of an individual's life such as personal financial information, medical details, family information, and other extremely private data, which are not pertinent to fulfilling a person's public responsibilities, is generally not disclose-able under the Act unless a broader public benefit is determined. The Constitution of India provides for the right to privacy which allows an individual to keep personal information away from unnecessary exposure. For example, information regarding a person's medical history, academic records or personal relationships are typically exempt from disclosure. Aspects of a person's life that do not generally promote the public good

and that could cause embarrassment or damage if disclosed. But the RTI Act has itself built in a safeguard that recognizes the possibility of superior public interest. This means that where the disclosure of personal information is in furtherance of a larger public purpose, e.g. exposing corruption or unethical behavior by a public official— the information is disclosed even though it would otherwise be exempt in light of personal privacy. In such cases, the public authority will need to balance the public interest against the possible privacy impact on individual before deciding.

Commercial Confidentiality

Sec. 8(1)(d) of the RTI Act protects sensitive commercial information. That said, data concerning trade secrets, intellectual property, commercial interests or similar concerned information held by public authorities are exempted from submission where disclosure is capable of standing to the disadvantage of the entity involved. This exemption is mainly for public sector undertakings (PSUs) and other government bodies in the business, trade, or service delivery space. This exemption covers, for example, information about a public authority's contracts with private companies, proprietary technologies, funding intentions, or any strategies that might provide competitors with a competitive advantage. This is to ensure a level playing field in the market and to avoid the unfair advantage which could be obtained by rivals having access to confidential data or proprietary information. The former would share sensitive and commercial data, and the latter could damage the businesses' competitive edge or commercial interest if made public. At the same time, the Act guarantees that this exemption is not used as a cover for information that might be of public concern. It is easily conceivable that if the release of such information can prevent corruption, expose fraudulent practices or lead to improved governance, then interest in the public may outweigh the interests in protecting commercial confidentiality.



Legislative Privilege

Section 8(1)(c) of the Act also provides that information which would be protected by the privileges of the legislature cannot be disclosed. This applies to proceedings of known party including debates, reports and records, which come under the privileges of Parliament and State Assemblies under Article 194 of the Constitution. Certain parliamentary proceedings, such as closed-door deals on sensitive national issues, confidential committee reports or documents that come under parliamentary privilege, cannot be disclosed under the RTI Act, for example. This exemption allows legislators to have candid and robust discussions without the concern that their deliberations will be made public or used against them. It ensures the integrity of the legislative process itself, so that members of Congress can go about their work without fear of pressure or scrutiny. This exemption also preserves any documents protected from disclosure under the doctrine of parliamentary privilege such as communications from legislators to the President, the Governor, or other constitutional authorities.

Information Restricted by Law

The last exemption mentioned in the RTI Act is pertaining to information that is barred by any law, at present, for the time being in force. This encompasses laws that prevent the release of certain types of information, including but not limited to court orders, judicial proceedings and various legal exceptions that prevent particular information from becoming available. Section 8(1)(b) of the Act is a safeguard to ensure that no information legally prohibited from being disclosed in a court of law is made available under the RTI Act. For instance, data that is sealed under a court order, or that gets protected by legal provisions like the Official Secrets Act, 1923, cannot be shared under the RTI Act. Also exempt from disclosure are details that are subject to ongoing legal proceedings like court cases,

and legal counsel given to the government. RTI Act is a powerful tool in ensuring transparency, but the RTI Act also acknowledges the need to protect the integrity of legal processes and the rights of individuals in legal matters. This safeguards justice, as prematurely leaked information risks undermining a fair legal process.

Information Commissions & Appellate Authorities

The Right to Information (RTI) Act, 2005 has been instrumental in bringing transparency and accountability in the Indian government. For the effective implementation of the RTI Act, the law provides for the establishment of independent bodies called Information Commissions at the central as well as state level. The final appellate authorities for RTI cases are the Central Information Commission (CIC) and State Information Commissions (SICs), playing an important role in the access of citizens to information from public authorities.

Role of Information Commissions and Appellate Authorities

The Information Commissions are essentially the final repositories of authority as far as de facto disputes between citizens and public authorities go in case a request for information has not been answered or even answered properly. Under the RTI Act, it is every citizen's right to ask for information from any public authority, and in the event of a public information officer (PIO) not responding within the listed time frame or furnishing insufficient information, the Information Commissions act as an alternate body to resolve grievances with a PIO. At national level, overseeing implementation of the RTI Act is the responsibility of Central Information Commission (CIC) while at state level this is the responsibility of State Information Commissions (SICs). The two Commissions are independent organizations that perform these functions



based on their respective mandates to guarantee compliance with the RTI Act by public authorities and the protection of citizen's rights to information.

Key Functions of the Information Commissions

1. **Adjudicating Disputes:** When the queries of the citizens are not satisfied by the Public Information Officer (PIO) response or receive no response at all, it leads to a dispute which is addressed under the Information Commissions. Under the RTI Act, a public authority is required to respond to information requests within 30 days of receiving the application, or within 48 hours in cases related to life and liberty. When citizens do not receive an answer from the administration within the time limit, or if an answer provided to them is unsatisfactory, they may then appeal to the Information Commission. In such cases, the citizen can make a second appeal to the Information Commission. The Commission ascertains all the details of the matter and protects the right of the citizen to get complete information sought for unless specifically exempted under the provisions of the RTI Act. It is following that an accountability mechanism would be in place to ensure that public authorities comply with the timelines provided by the Act: When information is not disclosed and if a public authority does not comply with the timelines laid down in the Act, the process of adjudication would ensure accountability. Information Commissions are not only advisable bodies for the dispute mechanism but also their decisions are binding on the authorities concerned. For instance, where the Commission orders to disclose certain information, the respective public authority will be bound by such decision. The Information Commission can take action on its own in case the decision is not complied with, including imposing penalty.
2. **Monitoring Compliance:** Another significant role of the Information Commissions is the oversight of the implementation of the RTI Act by public authorities. The Commissions make sure that public authorities are complying with the transparency and accountability requirements of the Act. Public

authorities are required to keep records, proactively disclose them on their website, and to respond to citizen RTIs within the prescribed timeframes. Information Commissions are in charge of the monitoring of public authorities in fulfilling these obligations. If the public authorities fail to adhere to these duties, the Information Commissions can issue orders and directives for their correction. They will be able to direct public authorities to update their records (by calling for the information to be updated), disclose information necessary as part of the RTI process, or to properly implement RTI processes.

3. **Imposing Penalties:** The RTI Act provides for penal action to be taken in case of non-compliance or undue delay in providing information. The Information Commissions can impose penalties on PIOs or public authorities that do not provide information within a specified time limit or provide incomplete or wrong information. Section 20 of the RTI Act allows the Information Commission to impose a fine of up to ₹25,000 on the concerned PIO or public authority. This penalty is charged every time the requested information is delayed or omitted. The Information Commission can also recommend its punitive action against the defaulting PIO. This may involve suspension or such other measures as may be needed so that public authorities never lose sight of RTI principles. The penalties imposed are meant to deter and enforce the importance of the law.
4. **Promoting Awareness:** The Information Commissions also play a crucial role in promoting awareness about the RTI Act, through organizing seminars, workshops, and camps, among others. The Commissions have to inform the public of their entitlement to information and the process of filing RTI applications. They arrange workshops, seminars and outreach campaigns to educate citizens about the provisions of the Act, how citizens can file RTI applications and how citizens can approach the Information Commission in case of any disputes. The Information Commissions create



awareness to help citizens rightfully claim their rights. It can also go a long way in breaking down the barriers like information disparity and ambiguity in RTI. The Act in Article 8 (2) includes calls for outreach, as well as publishing guidelines, best practices and case studies to support citizens and public authorities in implementation of the Act.

dependence and Effectiveness of the Information Commissions

Conceived as independent and autonomous institutions insulated by political influence and interference, the Information Commissions are not meant to be influenced by political machinations. This independence is crucial to ensure that the Commissions can act with impartiality, and in the name of the principles of transparency and accountability, without fear of reprisal. The Central and State Information Commissions do not report to the government; rather, they exist independently, and the appointment of the commissioners is made by a credible and rigorous process. The basic success of the RTI Act is dependent on the working of Information Commissions. The Commissions must be appropriately staff, funded, and resourced for the RTI framework to function effectively. Over the last few years, Critics have pointed out some Information Commissions being under-staffed and under-resourced and a lack of focused impact and engagement with citizens. Notwithstanding these obstacles, the Information Commissions have contributed significantly in improving the transparency and accountability in the public sector.

7. Penalties & Jurisdiction of Courts

RTI Act, 2005, is one such statute for transparency, accountability and good governance. A major feature of the law is penalties for companies that fail to respond to requests for information. These penalties are intended to discourage negligence, non-cooperation or deliberate procrastination by public authorities and

Their officials in delivering the information that people request. Penal provisions are definitely important as it encourages the compliance of the provisions of RTI Act itself and therefore section 20 of the RTI Act contain penal provisions.

Monetary Penalties

One of the most straightforward and immediate punitive measures available under the RTI Act is the imposition of monetary fines. However, Section 20 of the Act empowers the Information Commission to punish the PIO if he does not provide them with the information within the stipulated time. The RTI Act provides for a maximum penalty of Rs. 25,000 for each case of the delay or refusal to respond to a request for information. It imposes a penalty for non-adherence to the time limits prescribed by the Act, which are:

- **30 days** for general information requests.
- **48 hours** for information related to life and liberty, which is critical and needs to be addressed urgently.

The significant penalty amount of Rs. 25,000 proves to be such a discouragement for public authorities and their officers to circumvent the time limits prescribed by the RTI Act. Each instance of the delay in the response to the request will be considered an offence separately meaning a PIO may be fined multiple times for not responding to different requests within specified time limits. This puts a financial strain on public authorities determining the need of RTI applications and ensuring that they follow the law in a timely manner. The Act specifies the quantum of the penalty but vests discretion in the Information Commission to quash or reduce the penalty in cases where delay has been a consequence of reasonable causes, such as unavailability of records or complexity of request. This allows for the penalty provisions to be balanced, while still ensuring that PIOs are responsive to their accountability.



Disciplinary Action

Apart from imposing monetary punishment, the Information Commission may also recommend disciplinary action against a PIO or public authority for not obeying the RTI Act. Repercussions can vary from informal warnings to more formal discipline, up to and including termination depending on the severity. The recommendation for disciplinary action is a primary deterrent as PIOs and public authorities may not take monetary fines seriously but are usually deterred by potential career repercussions.

The limb for disciplinary proceedings has great significance for its following functions:

- **Encourages Accountability:** By holding public authorities accountable for their actions, disciplinary action fosters a culture of accountability within these organizations. More importantly, public-information officers and indeed all officials take their responsibilities under the RTI Act seriously when they see that failure to comply has professional consequences.
- **Promotes Ethical Conduct:** The RTI Act promotes ethical conduct among public authorities and their officers by making them accountable for their actions.
- **Prevents Recidivism:** In instances where monetary fines prove ineffective at mitigating noncompliance, the specter of disciplinary action serves as an additional deterrent for officials who otherwise would be tempted to disregard this duty.

Such disciplinary actions might include internal administrative reviews or offering training programs to public officials ensuring they are adequately aware of the specifics of RTI Act and the repercussions of acting in a manner that is not compliant with RTI Act. This also ensures that bureaucracies become more informed and responsible, a key to the success of the RTI Act in the long haul.

Appeals and Court Jurisdiction

Another important aspect of RTI ACT is the right to appeal decisions of Information Commission by citizens. If any applicant is aggrieved from the decision or action of the Information Commission, he can file an appeal to the higher court, which may be High Court or Supreme Court, which is depending on the provision of law of the Indian judicial system. It also facilitates an extra level of oversight for citizens and places the decisions of the Information Commission under the purview of the courts so that it can be independently reviewed by the judiciary.

This provision enhances the RTI Act in the following manner by enabling appeals at various stages:

- **Ensuring Judicial Oversight:** Citizens can approach the courts to seek judicial review of the decisions made by the Information Commission, such that these decisions are in the interest of legality and the spirit with which the RTI Act was enacted. Where the law has been misapplied, or the Information Commission's decisions fail to uphold the public's right to receive information, Courts can accordingly intervene.
- **Improving Accountability:** The threat of judicial review acts as an additional check on the Information Commission's decisions and encourages greater accountability within the Commission itself. It also makes sure that the Commission isn't above the law, and its actions can still be subject to scrutiny by an independent body.
- **Providing Redressal for Citizens:** Where citizens feel their right to information has been denied or delayed wrongfully, the provision of the right to appeal to the courts provides a legal remedy. This ensures accountability in the implementation of the RTI Act and empowers citizens to take action if they feel their rights are being violated.



The jurisdiction of the courts over RTI cases contributes to the strengthening of the RTI framework, making it more robust and providing citizens with confidence that their rights will be protected.

Penalties and Their Role in Promoting Accountability

There is provision of penalties and judicial review in RTI Act that are required to make public authorities perform their duty and comply with their responsibilities under the law. These punishments help promote transparency and discourages corruption in the administration by ensuring that public authorities and public officials, who do not become transparent, are held responsible.

Penalties perform a variety of eminence functions:

The RTI Act is an effective instrument in relation to bringing transparency in the functioning of public authorities. It creates an operational framework for the compulsory disclosure of information and for the operation of public bodies in Accordance with the democratic principles of openness and responsiveness. Some of the significant measures, which help to make the RTI Act an efficacious statute are deterrents against default, disincentives, expeditious measures as well as good governance in imposition of penalties and determination of disputes. A key feature of the RTI Act is that it has deterred non-compliance. All PIOs & public authorities are under statutory obligation to provide information as per the stipulations of the Act. With the threat of fines and the loss of professional license, there are strong disincentives to deliberate obstruction of information that are all but eliminated.

The prospect of facing punitive measures compels officials to fulfill their responsibilities, thereby ensuring that the objectives of the RTI Act are not undermined. Such deterrence plays a crucial role in fostering a culture of accountability within public institutions, as the fear of penalties

discourages complacency and promotes adherence to the legal obligations prescribed by the Act. The RTI Act also prescribes a specified time -frame for the consideration of the requests for information and thereby enables action at short notice. Fixed timelines also contribute to assuring citizens that they will receive timely answers to their inquiries, which will help to avoid unnecessary delay that might disrupt their ability to make informed judgments. Fees are also imposed for responsible officials if the required time frames are exceeded, thereby promoting a rapid response. This indicates the importance of the rights of citizens in that they can get the necessary information without being held back. The fact that the public bodies can be taken to task for delay brings a sense of urgency to the release of information and it also discourages bureaucratic lethargy. Equity is another key proposition of the RTI Act, especially regarding levy of penalty and settlement of disputes. The Job Protection Act provides an appeals and a judicial review process - so penalties are not unfairly levied; and citizens redress their grievances if they feel they have been wronged. It is this safeguard that ensures that there can be no frivolous or unfair victimization of officers and, at the same time, ensures the rights of information seekers. The recourse system is a mechanism to cure wrong – a process of resolution of the disputes in a time bound manner, mitigating the injustice. By providing these fetters, the RTI Act strikes a balance between the imperatives of accountability on the one hand and of due process on the other, so that a punishment becomes a corrective and not a tool for misuse. The Act also acts as already strong framework to intimidate non-compliance, to instigate action in time and to maintain fairness in the prosecution of penalties. The Act forces public authorities to do what they are meant to do by threatening with financial and career sanctions those who do not comply.

Fixed timelines and associated penalties reinforce the importance of timely responses, enhancing the efficiency of information dissemination. Additionally, provisions for appeals and judicial review uphold fairness, preventing misuse of



penalties while safeguarding citizens' rights. Together, these mechanisms help make the RTI Act a successful tool for ensuring transparency in governance, which is a basic tenet of democracy. These penal provisions together act as a strong deterrent, which makes the RTI act a powerful tool for transparency, accountability and good governance. Similarly, they are also a way in which the public trust between the citizenry and government is fostered, as citizens know that they will be treated fairly and receive timely responses to requests of information from the government. Such sanctions, in the form of fines, disciplinary action, and even subsequently court review, are necessary to ensure compliance with the RTI Act and inculcating a culture of transparency and accountability. The plain meaning of the provisions is that if RTI Act is disobeyed, it is not a matter of discretion one way or the other, but is a clear admission of the authority's inability to carry out its first and foremost duty to the Indian public –to provide information as a legal right to its citizens.”

Ensuring Transparency and Accountability: The Role of Penalties in Strengthening the RTI Act

The Right to Information Act (RTI) in India is an act of the Parliament of India "to provide for setting out the practical regime of right to information for citizens." It fosters transparency, accountability and democracy by allowing people to hold the authorities to account. But the efficacy of the act is largely dependent on measures to enforce it, in particular, penalising officials for non-compliance with its provisions. Penalties prevent fading of the reputation mechanism by obliging players to make their information available in time. The RTI Act under Section 20 mandates liability of ₹250 per day for undue delays and refusal to provide information, subject to a maximum of ₹25,000 on the Public Information Officer (PIO). This financial burden would discourage indifference or intentional obstruction, while promoting a culture of openness. Also, errors will be disciplined with criticism, emphasizing, once again, the level of responsibility.

Fines mean officials are forced to stick to tight schedules, preventing delays that regularly irk applicants looking for vital details. In most cases the presence of the punishing clauses alone is sufficient to elicit swift responses, as officials do not want sanctions against their pay and careers. This speeds up the dissemination of information and also builds more trust in public institutions. Additionally, penalties contribute to democratic governance by giving citizens the power to contest and confront malpractices. They ensure that power is not abused by making authorities answerable with regard to how they use their power. That officials are punished for breaking RTI norms is a confidence booster for citizens, who will then participate more in democratic processes. But penalties need to be well enforced if they are to have any effect. Research has demonstrated that there are instances where there are no penalties or penalties are forgiven in clear cases of infractions. The existence of such gaps is something that will be filled only when the independence and efficiency of Information Commissions (to which appeals under the RTI Act lie) is fortified.

“Penalties are an important deterrent in furthering the purpose of the RTI Act in ensuring transparency and accountability”. They deter non-compliance and build a trust relationship between citizens and the state. So that the RTI Act can play the role that is expected from it, sustained application of various kinds of penalties added to public education and other systemic follow-up measures are necessary to create a sturdy edifice of transparent governance

Penalties Under the RTI Act: Ensuring Compliance

Since 2005, the RTI Act has been a key legal mechanism to empower citizens to information from public authorities. It is a piece of legislation that is supposed to encourage transparency, accountability, and good governance by allowing citizens to poke their collective noses into public authority operations. However, the mere provision of the right to information is insufficient without robust enforcement mechanisms. In this context,



penalties imposed on officials who fail to comply with the RTI Act play a crucial role in ensuring that the law is implemented effectively.

Legal Provisions for Penalties: Section 20 of the RTI Act provides a clear framework for penalizing Public Information Officers (PIOs) and other officials responsible for handling information requests. Penalties are imposed under the following circumstances:

- **Refusal to Provide Information:** If a PIO refuses to furnish information without reasonable cause or denies information in a manner that violates the provisions of the Act, they are liable to face penalties.
- **Delays in Responding:** The Act mandates a response within 30 days of receiving a request. Failure to comply within the stipulated timeline without a justified reason can attract monetary penalties.
- **Providing Incorrect or Misleading Information:** Supplying incomplete, incorrect, or misleading information also warrants punitive action.

The monetary penalty under the RTI Act is calculated at Rs. 250 per day of delay, subject to a maximum ceiling of Rs. 25,000. This financial disincentive compels officials to take their duties seriously, ensuring timely and accurate disclosure of information.

Beyond Monetary Penalties

The RTI Act does not have only monetary penalties as implementation tool. The CIC and SICs are empowered to recommend departmental action against erring officials. These recommendations may involve entries in the service record in negative manner and also suspension or other suitable act under the service rules. The reasoning behind adding disciplinary procedures is to remind public officials that public service comes with a sense of responsibility. Financial penalties on their own may not be found to serve as enough disincentive against non-compliance, and not only at top level. Personal liability and the

potential impact on career progression create a stronger motivation for officials to adhere to the law.

Impact on Bureaucratic Transparency

The imposition of penalties under the RTI Act addresses one of the most persistent challenges in public administration — bureaucratic inertia. Prior to the RTI Act, the opacity of government functioning often led to arbitrary decision-making and corruption. By holding officials personally accountable for delays or the deliberate concealment of information, the Act promotes a culture of openness. The existence of penalties also serves as a deterrent to arbitrary decision-making. Officials are more likely to maintain proper documentation and follow procedural transparency when they know they can be held accountable. This, in turn, improves the overall efficiency of government departments.

Challenges and the Need for Consistent Enforcement

Despite the strong legal framework, the effectiveness of penalties depends on their consistent and impartial enforcement. In several instances, Information Commissions have been criticized for their reluctance to impose penalties even when clear violations have occurred. Such leniency undermines the credibility of the RTI Act and emboldens officials to evade their responsibilities. Addressing this issue requires strengthening the independence and efficiency of Information Commissions. Prompt disposal of cases and a commitment to imposing penalties where due can reinforce public trust in the system. Moreover, creating greater awareness among citizens about their right to information can encourage more people to hold officials accountable.

Legal Recourse and Citizens' Rights

The Right to Information (RTI) Act, enacted in 2005, is a transformative piece of legislation that empowers Indian citizens to seek information from public authorities, promoting transparency and accountability in governance. However,



the true strength of this Act lies in the provision for legal recourse when officials fail to comply with its mandates. Citizens who face obstacles such as undue delays, arbitrary denials, or misleading responses have the right to challenge such actions through a structured appellate framework. This framework ensures that grievances are reviewed independently, safeguarding citizens' rights against administrative high-handedness. The RTI Act offers a hierarchical two-tier appeal system that allows citizens to escalate their complaints if dissatisfied with the initial response. The first appeal is filed with the designated First Appellate Authority (FAA) within 30 days of receiving an unsatisfactory or delayed response. The FAA reviews the decision objectively, offering applicants a fair chance to obtain the requested information. If the applicant remains dissatisfied, a second appeal can be made to the Central Information Commission (CIC) or the relevant State Information Commission (SIC). These Commissions serve as the highest authority under the RTI Act, empowered to investigate cases of non-compliance, impose penalties on defaulting officers, and recommend disciplinary action where necessary. The existence of this multi-tiered system ensures that public officials are held accountable, encouraging adherence to the law. One of the most significant aspects of legal recourse under the RTI Act is the power of Information Commissions to impose monetary penalties. If a Public Information Officer (PIO) willfully denies information, provides false or misleading data, or fails to respond within the stipulated 30-day timeframe without reasonable cause, they can be fined up to Rs. 250 per day, with a maximum limit of Rs. 25,000. This financial disincentive acts as a deterrent against arbitrary decision-making and bureaucratic inertia. Additionally, the Commissions can recommend disciplinary action under service rules, which serves as a further motivation for officials to comply diligently with RTI provisions. Beyond the internal appeal mechanism, citizens also have the option to seek judicial intervention if they believe their fundamental right to information is being unjustly denied. High Courts and the Supreme Court have, in several landmark judgments, upheld the primacy of the

RTI Act in ensuring transparency and accountability. The judiciary has played a crucial role in preventing the dilution of the Act's provisions by vested interests, safeguarding citizens' rights to access public information. Judicial intervention not only offers relief to aggrieved applicants but also sets legal precedents that reinforce the objectives of the RTI Act.

Legal recourse under the RTI Act is essential for maintaining the credibility and effectiveness of the law. By providing citizens with the power to challenge non-compliance and arbitrary actions, the Act ensures that transparency is not merely a theoretical concept but a practical reality. The hierarchical appeal system, the imposition of penalties, and the option for judicial review collectively strengthen the accountability of public authorities. These safeguards prevent the misuse of power, encourage responsible governance, and uphold citizens' right to information, which is fundamental to a vibrant democracy.

Impact of Penalties on Good Governance

The enforcement of penalties under the RTI Act has a direct bearing on promoting good governance. By penalizing errant officials, the Act ensures adherence to democratic principles of transparency and accountability. A transparent government is less susceptible to corruption, inefficiency, and policy failures. Citizens, when equipped with information, can actively participate in governance, question authorities, and demand better public services. The RTI Act has played a crucial role in exposing corruption, uncovering administrative lapses, and bringing about systemic reforms. The deterrence effect of penalties ensures that officials remain vigilant about their responsibilities and handle public requests with seriousness. In many instances, penalties have led to policy corrections, improved record-keeping, and better communication between government departments and the public.



Challenges in the Enforcement of Penalties

Despite the robust legal framework of the Right to Information (RTI) Act, the enforcement of penalties faces several challenges that undermine its effectiveness in ensuring transparency and accountability. Although Section 20 of the Act empowers Information Commissions to impose monetary fines and recommend disciplinary action against non-compliant officials, these provisions are often not implemented as strictly as intended. One of the primary obstacles is the frequent use of delaying tactics by Public Information Officers (PIOs) and other government officials. Bureaucratic procedures, coupled with the invocation of confidentiality clauses, are often exploited to deny or postpone the disclosure of information. These tactics create a barrier for citizens seeking timely access to public records, thus weakening the impact of the RTI Act.

Another significant challenge lies in the reluctance of Information Commissions to impose strict penalties. In numerous cases, despite clear evidence of non-compliance or willful obstruction of information, Commissions have been hesitant to penalize defaulting officials. This reluctance can be attributed to several factors, including administrative pressure and political interference. When influential individuals or powerful organizations are involved, officials often shy away from imposing penalties due to fear of repercussions. Such selective enforcement creates a perception of partiality and emboldens officials to evade their responsibilities without facing serious consequences. The backlog of RTI appeals is another critical issue that dilutes the effectiveness of penalties. Many State Information Commissions (SICs) and the Central Information Commission (CIC) are burdened with a growing number of pending cases, causing significant delays in resolving appeals. When cases remain unresolved for prolonged periods, the deterrent effect of penalties is considerably weakened. Officials who violate the provisions of the RTI Act often continue to do so with the expectation that the delay in adjudication will shield them from accountability.

Moreover, a lack of awareness among citizens regarding their rights under the RTI Act contributes to the underutilization of the legal recourse mechanisms. Many individuals are unaware of their right to file appeals or the possibility of seeking penalties against non-compliant officials. This lack of awareness results in fewer appeals being filed, which in turn reduces the pressure on government bodies to adhere to the provisions of the Act. Without a well-informed citizenry actively challenging non-compliance, the culture of transparency that the RTI Act seeks to promote remains incomplete. To address these challenges, several measures are necessary. Strengthening awareness campaigns can empower citizens by educating them about their rights and the appeal mechanisms available under the RTI Act. A well-informed population is more likely to hold public officials accountable, thereby enhancing the enforcement of penalties. Additionally, improving the capacity of Information Commissions is essential to reducing case backlogs. Increasing staffing, investing in digital infrastructure for faster case processing, and setting stricter time limits for disposing of appeals can help ensure timely justice. Furthermore, safeguarding the independence of Information Commissions is crucial to preventing political and administrative interference. Ensuring that Information Commissioners are appointed through transparent and merit-based processes can enhance their autonomy and willingness to impose penalties impartially. Regular training programs for PIOs and other government officials can also instill a better understanding of the importance of transparency and the consequences of non-compliance.

Strengthening the RTI Act Through Effective Enforcement

The Right to Information (RTI) Act is a powerful tool designed to promote transparency and accountability within government institutions by empowering citizens to access public information. A critical element that underpins the success of this Act is the imposition of penalties on officials who fail to comply with its provisions. By holding government functionaries accountable for non-compliance, delays, or deliberate attempts to obstruct access to information, the RTI Act not



only deters malpractice but also fosters a culture of openness within public offices. However, the effectiveness of these penalties largely depends on their consistent, impartial, and timely enforcement. Strengthening the mechanisms that ensure fair application of penalties is essential to realizing the Act's broader objectives of good governance and citizen empowerment. One of the most effective ways to enhance enforcement is by strengthening the autonomy and capacity of Information Commissions. The Central Information Commission (CIC) and State Information Commissions (SICs) play a pivotal role in adjudicating RTI appeals and imposing penalties where necessary. However, these bodies often face challenges such as political interference, inadequate staffing, and insufficient resources, which hinder their ability to function impartially and efficiently. Ensuring the independence of Information Commissions through transparent and merit-based appointments, adequate funding, and autonomy in decision-making can help address these issues. When Information Commissions operate without external pressure, they are more likely to impose penalties fairly, setting a precedent that discourages future non-compliance. Reducing delays in the appellate process is another crucial factor in strengthening the RTI Act. The growing backlog of cases in both Central and State Information Commissions significantly weakens the deterrent impact of penalties. When cases remain unresolved for prolonged periods, defaulting officials often escape accountability, undermining the confidence of citizens in the system. Investing in digital infrastructure, increasing staffing levels, and setting strict time limits for disposing of appeals can help expedite the appellate process. Faster resolution of cases not only ensures timely justice but also reinforces the seriousness of compliance among public officials. Citizen awareness and participation are equally important in strengthening the enforcement of penalties under the RTI Act. Many individuals remain unaware of their rights to appeal and seek penalties against non-compliant officials. This lack of awareness results in fewer cases being escalated to the Information Commissions, which in turn reduces the pressure on public authorities to adhere to the law. Promoting awareness through workshops, public

campaigns, and community engagement can empower citizens to actively exercise their right to information. A well-informed citizenry serves as a powerful check against bureaucratic arbitrariness and increases the overall accountability of government institutions. Additionally, the consistent and fair imposition of penalties is essential for reinforcing the purpose of the RTI Act. In some instances, Information Commissions have shown reluctance to impose strict penalties due to administrative or political pressures, particularly in cases involving influential individuals or organizations. Such selective enforcement undermines public trust and emboldens officials to evade accountability. Ensuring that penalties are imposed based on objective criteria, regardless of the status of the individuals involved, is crucial to maintaining the integrity of the Act. Transparent reporting of penalty cases and regular performance reviews of Information Commissions can also enhance accountability and public confidence.

As the demand for transparency grows in India's evolving democratic framework, the role of the RTI Act in fostering good governance will become increasingly significant. Ensuring that penalties are imposed fairly and effectively not only reinforces the Act's credibility but also empowers citizens to actively engage in the democratic process. A well-enforced RTI Act contributes to a more accountable, responsive, and participatory governance framework, benefitting both the government and the people it serves. Strengthening the enforcement mechanisms through autonomy, timely resolution of appeals, and heightened citizen awareness will help realize the full potential of the RTI Act in promoting transparency and accountability in India.

Case Study 1: State of Tamil Nadu vs. Suhas Katti (2004)

(Related to IT Act, 2000 – Offences, Penalties, and Cybercrime)

Background

This was one of the earliest cases under the IT Act, 2000. The accused, Suhas Katti, posted obscene and defamatory messages about a divorced woman in a Yahoo message group. He also shared her personal phone number, leading to her receiving harassing calls.

Legal Issues

- Whether online defamation and obscenity fall under the purview of the IT Act, 2000.
- Application of **Section 67** of the IT Act (publishing obscene material in electronic form).
- Liability of the accused for harassment and mental trauma caused.

Court's Decision

- The Metropolitan Magistrate, Egmore, Chennai convicted Suhas Katti.
- He was sentenced to **2 years of rigorous imprisonment and a fine of ₹4,000** under the IT Act.
- This became the **first conviction under the IT Act, 2000** in India.

Relevance to Syllabus

- Demonstrates **penalties and offences** under the IT Act.
- Shows how **electronic records** and digital evidence are accepted in courts.
- Establishes that cyber defamation and obscene content online are punishable.

Case Study 2: Shreya Singhal vs. Union of India (2015)

(Related to IT Act, 2000 – Jurisdiction, Penalties, Fundamental Rights)



Background

Section 66A of the IT Act, 2000 gave wide powers to punish people for sending "offensive" messages online. It was criticized for being vague and misused to arrest people for social media posts (e.g., two women in Maharashtra were arrested for posting about a political leader's death).

Legal Issues

- Whether Section 66A violated **Article 19(1)(a)** (Right to Freedom of Speech and Expression).
- Whether the provision was too vague and gave arbitrary powers to the government.

Court's Decision

- The Supreme Court struck down **Section 66A** as **unconstitutional**.
- It held that the law was vague, overreaching, and a threat to free speech.
- However, the Court upheld other parts of the IT Act, including those relating to **electronic governance and digital signatures**.

Relevance to Syllabus

- Relates to **penalties and offences** and how courts interpret them.
- Shows **jurisdiction of courts** under IT Act.
- Connects IT Act provisions with **fundamental rights** (important intersection).

Case Study 3: Central Board of Secondary Education (CBSE) vs. Aditya Bandopadhyay (2011)

(Related to RTI Act, 2005 – Right to Know, Duties of Public Authority, Exemptions)

Background

Aditya Bandopadhyay, a student, filed an RTI application asking CBSE for copies of his evaluated answer sheets. CBSE refused, arguing that disclosing them would involve



unnecessary work, was exempt, and could compromise examination integrity.

Legal Issues

- Whether students have the **right to access their evaluated answer sheets** under the RTI Act.
- Whether CBSE is a **public authority** obligated to share information.
- Whether disclosure would fall under exemptions (confidential information).

Court's Decision

- The Supreme Court ruled that students **do have the right** to access their answer sheets under RTI.
- CBSE, being a public authority, has the obligation to provide such information.
- The Court clarified that transparency and accountability in education are crucial, though frivolous demands should be avoided.

Relevance to Syllabus

- Illustrates **Right to Know** and **obligations of public authorities**.
- Shows role of **Public Information Officer (PIO)** in processing requests.
- Explains **exemptions from disclosure** and their limits.



SELF ASSESMENT QUESTIONS

MCQ's M - V

1. Moral development refers to:
 - a) Physical growth
 - b) Evolution of ethical thinking
 - c) Increasing profits
 - d) Technology advancement
2. Moral sensitivity is:
 - a) Ability to identify ethical issues
 - b) Ignoring dilemmas
 - c) Neutrality to problems
 - d) Corporate image building
3. Which is a component of moral development?
 - a) Moral motivation
 - b) Price discrimination
 - c) Advertising
 - d) None
4. Corporate moral development can be achieved by:
 - a) Strictly legalistic culture
 - b) Ethical organizational culture
 - c) Unethical leadership
 - d) Ignoring stakeholders
5. Responsive organizations:
 - a) Engage in CSR activities
 - b) Ignore society
 - c) Break laws
 - d) None
6. Ethical organizations:
 - a) Promote integrity and fairness
 - b) Encourage corruption
 - c) Ignore employee welfare
 - d) Focus only on competition
7. Moral reasoning involves:
 - a) Decision making based on ethical principles
 - b) Blind obedience
 - c) Emotional reactions alone
 - d) Profits first



SELF-ASSESSMENT QUESTIONS

Short answer type questions

1. What is the primary objective of the Information Technology Act, 2000?
2. How does a digital signature help in electronic governance?
3. What is the legal status of electronic records under the IT Act, 2000?
4. Who can issue a digital signature certificate in India?
5. What are the key features of the Right to Information Act, 2005?
6. What obligations do public authorities have under the RTI Act?
7. Describe the process of submitting an RTI request.
8. What are the duties of the Public Information Officer (PIO) under the RTI Act?
9. List any three exemptions from disclosure under the RTI Act.
10. What is the role of the Central and State Information Commissions in implementing the RTI Act?

Long Answer type question

1. Explain the definition and scope of the Information Technology (IT) Act, 2000. How has this law contributed to regulating electronic transactions and cybersecurity in India?
2. Discuss the concept of digital signatures under the IT Act, 2000. How do digital signatures ensure the authenticity and security of electronic records?
3. What is electronic governance (e-governance) as per the IT Act, 2000? Explain its significance in modern administration and public service delivery.
4. Describe the legal recognition of electronic records under the IT Act, 2000. How does the Act facilitate digital transactions and electronic documentation?
5. What are the major offenses covered under the IT Act, 2000? Discuss the penalties prescribed for cybercrimes such as hacking, identity theft, and data breaches.

6. What is the Right to Information (RTI) Act, 2005? Discuss its objectives and key features. How does this Act promote transparency and accountability in governance?
7. What are the obligations of public authorities under the RTI Act, 2005? Explain how public institutions are required to provide information to citizens.
8. Describe the process of filing an RTI request. What steps should a citizen follow to seek information from a public authority?
9. Who is a Public Information Officer (PIO) under the RTI Act, 2005? Discuss their role, responsibilities, and challenges in handling RTI applications.



MODULE V - GLOSSARY

1. **Information Technology Act, 2000** – A legal framework for electronic governance, digital contracts, and cybercrime regulation in India.
2. **Electronic Records** – Data generated or stored in digital form, treated as legally valid under the IT Act.
3. **Digital Signature** – A secure digital code used to authenticate electronic documents and transactions.
4. **Certifying Authority** – A body licensed to issue and manage digital signature certificates.
5. **Cybercrime** – Illegal activities carried out using computers or networks, such as hacking or phishing.
6. **Hacking** – Unauthorized access to or manipulation of computer systems and data.
7. **Data Breach** – The unauthorized exposure or theft of confidential digital information.
8. **Cyber Appellate Tribunal** – A body that hears appeals against decisions made under the IT Act.
9. **Non-Repudiation** – Assurance that a party in a digital transaction cannot deny the authenticity of their signature or document.
10. **E-Governance** – Use of digital tools by the government to deliver public services efficiently.
11. **Right to Information Act, 2005** – A law enabling citizens to access information from public authorities.
12. **Public Authority** – Any government department, organization, or institution receiving government funding.
13. **Public Information Officer (PIO)** – The official responsible for providing information under the RTI Act.
14. **First Appellate Authority** – The authority to which an appeal is made when RTI response is unsatisfactory or delayed.
15. **Information Commission** – A body at the central and state levels for enforcing the RTI Act and addressing complaints.
16. **RTI Application** – A formal request submitted by a citizen to obtain information from a public body.
17. **Disclosure** – The release or sharing of requested information by a public authority.
18. **Exempted Information** – Information not disclosable under RTI due to national security, privacy, or sensitive content.
19. **Transparency** – Openness in government functioning, allowing citizens to scrutinize processes and decisions.



- 20. **Accountability** – The obligation of public authorities to explain and justify their actions and decisions.
- 21. **Penalty** – A fine imposed on PIOs for unjustified delays, refusal, or incorrect information.
- 22. **Time Limit** – The period (usually 30 days) within which information must be provided under the RTI Act.
- 23. **Third-Party Information** – Data involving a person other than the applicant, protected under certain conditions.
- 24. **Appeal Process** – A mechanism under RTI to challenge denial or delay of information.
- 25. **Jurisdiction Bar** – A clause restricting courts from entertaining RTI matters unless statutory processes are followed.



MODULE V - SUMMARY

The **Information Technology Act, 2000** was enacted to provide a legal framework for electronic transactions, digital records, and cyber-related offenses in India. As businesses and government services increasingly moved to digital platforms, the need for regulating cyber activities and ensuring trust in online communication became critical. The IT Act defines the legal validity of **electronic records and digital signatures**, recognizing them as equivalent to paper documents and handwritten signatures under Indian law. It applies to all electronic contracts, cybercrimes, e-commerce, and digital communication, with certain exceptions such as wills and negotiable instruments.

One of the central features of the IT Act is the use of **digital signatures** to authenticate electronic records. Digital signatures ensure the **integrity, authenticity, and non-repudiation** of electronic communication, enabling secure online transactions and e-governance. The Act also provides for **certifying authorities** who issue digital signature certificates and maintain their security. It establishes penalties and adjudication procedures for **cybercrimes** like hacking, identity theft, data breach, sending offensive messages, and unauthorized access to computer systems. The Act empowers the government to regulate and monitor internet use in national interest and security, and also lays the foundation for **Cyber Appellate Tribunals** to hear disputes arising under its provisions.

The **Right to Information (RTI) Act, 2005** is a landmark legislation aimed at promoting transparency and accountability in government functioning. It empowers citizens to seek information from public authorities, thereby strengthening democracy and fighting corruption. Under the Act, any Indian citizen can request information in writing or electronically from any **public authority**, which is obligated to respond within **30 days** (or 48 hours in life-threatening situations). The Act defines "information" broadly to include any material in any form, including records, documents, memos, e-mails, and reports.

The Act mandates the appointment of **Public Information Officers (PIOs)** in each public authority, who are responsible for receiving, processing, and responding to RTI applications. If the requested information is denied or delayed beyond the stipulated time, the applicant has the right to file an **appeal** with the **Appellate Authority** or approach the **Information Commissions** established at the Central and State levels. These commissions ensure enforcement of the Act and address complaints regarding non-disclosure of information.

However, the RTI Act also provides **exemptions from disclosure**, particularly in cases involving national security, personal privacy, and information that could hinder investigations or harm third-party interests. Nevertheless, the exemptions are interpreted narrowly to promote openness. Non-compliance with the Act can lead to **penalties**, such as fines on the concerned PIO, reinforcing accountability. Importantly, courts do not have jurisdiction to entertain RTI-related matters unless all other remedies under the Act have been exhausted, ensuring a structured process for resolution.



Answer to multiple choices question (M - V)

- 1-b - Physical growth
- 2-a - Ability to identify ethical issues
- 3-a - Moral motivation
- 4-b - Ethical organizational culture
- 5-a - Engage in CSR activities
- 6-a - Promote integrity and fairness
- 7-a - Decision making based on ethical principles

Reference



MODULE I: Law of Contract and Law of Agency

1. Kuchhal, M.C., & Kuchhal, V. (2018). Business Law (7th ed.). Vikas Publishing House.
2. Singh, A. (2017). Business Law (4th ed.). Eastern Book Company.
3. Maheshwari, S.N., & Maheshwari, S.K. (2020). A Manual of Business Laws (2nd ed.). Himalaya Publishing House.
4. Tulsian, P.C. (2018). Business Law. McGraw-Hill Education.
5. Gulshan, S.S., & Kapoor, G.K. (2019). Business Law Including Company Law (15th ed.). New Age International.

MODULE II: Negotiable Instruments Act and Law of Partnership

1. Pathak, A. (2017). Legal Aspects of Business (6th ed.). McGraw-Hill Education.
2. Majumdar, A.K., & Kapoor, G.K. (2018). Company Law and Practice (20th ed.). Taxmann.
3. Jain, N.K. (2017). Principles of Mercantile Law (9th ed.). Kamal Law House.
4. Bare Act – Negotiable Instruments Act, 1881 (Latest Edition). Commercial Law Publishers.
5. Bare Act – Indian Partnership Act, 1932 (Latest Edition). Commercial Law Publishers.

MODULE III: Companies Act

1. Ramappa, T. (2021). Company Law (5th ed.). S. Chand Publishing.
2. Sharma, J.P. (2022). An Easy Approach to Corporate Laws (3rd ed.). Ane Books.
3. Gower, L.C.B., & Davies, P.L. (2016). Principles of Modern Company Law (10th ed.). Sweet & Maxwell.
4. Bare Act – Companies Act, 2013 (Latest Edition). Commercial Law Publishers.
5. Ramaiya, A. (2021). Guide to the Companies Act (19th ed.). LexisNexis.

MODULE IV: Sale of Goods Act and Consumer Protection Act

1. Kapoor, N.D. (2019). Elements of Mercantile Law (35th ed.). Sultan Chand & Sons.
2. Bare Act – Sale of Goods Act, 1930 (Latest Edition). Commercial Law Publishers.
3. Bare Act – Consumer Protection Act, 2019 (Latest Edition). Commercial Law Publishers.
4. Singh, A. (2021). Law of Consumer Protection in India (7th ed.). Eastern Book Company.
5. Saraf, D.N. (2021). Law of Consumer Protection in India (7th ed.). LexisNexis.



MODULE V: Information Technology Act and Right to Information Act

1. Bare Act – Information Technology Act, 2000 (Latest Edition). Commercial Law Publishers.
2. Bare Act – Right to Information Act, 2005 (Latest Edition). Commercial Law Publishers.
3. Duggal, P. (2019). Information Technology Law in India (3rd ed.). Universal Law Publishing.
4. Seth, D. (2020). Cyber Laws in the Information Technology Age (3rd ed.). LexisNexis.
5. Kumar, N. (2018). Right to Information: Law and Practice (3rd ed.). Commercial Law Publishers.

MATS UNIVERSITY

MATS CENTRE FOR DISTANCE AND ONLINE EDUCATION

UNIVERSITY CAMPUS: Aarang Kharora Highway, Aarang, Raipur, CG, 493 441

RAIPUR CAMPUS: MATS Tower, Pandri, Raipur, CG, 492 002

T : 0771 4078994, 95, 96, 98 Toll Free ODL MODE : 81520 79999, 81520 29999

Website: www.matsodl.com

