

1. What is a Promissory Note (PN)?

- **Legal Definition:**

Defined in the Bills of Exchange Act 1882, Section 83:

“A promissory note is an unconditional promise in writing made by one person to another signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer.”

- **Simplified:**

A promissory note is a written, signed promise to pay a specific sum of money, either on demand or at a set time, to a designated person or bearer.

- **Examples:**

Cheques, giro credits, and even banknotes like the £10 note are forms of promissory notes.

2. Legal Framework and Security

- **Consumer Credit Act 1974, Section 189:**

Defines "security" to include notes, bills, mortgage, charge, pledge, bond, debenture, indemnity, guarantee and other instruments used to secure the obligations of a debtor or hirer.

- **Cash Definition:**

“Cash” includes money in any form, emphasizing the broad applicability of promissory notes as a substitute for cash in transactions.

3. Processing a Promissory Note

- **Two Main Methods:**

- Drawn against social security entitlements.
- Securitization by a bank.
- **Discharging Liabilities:**

This process—sometimes called “Different Performance”—allows debts to be settled and removes all liability from the bank.

4. Practical Example: Rental Agreement

- **Scenario:**
 - Agree to pay £6,750 (£750 x 9 months) for renting an apartment.
 - Landlord issues an invoice; tenant issues a promissory note.
 - The promissory note includes a 20% commission for the bank and a Notice of Appointment of Fiduciary for the bank officer.
 - Once processed, credits are paid into the landlord’s account.
- **Benefits:**
 - Landlord receives a lump sum.
 - Bank earns a commission.
 - Tenant’s liability is discharged for the rental period.

5. Historical Context

- **Origins:**
 - Pilgrims deposited gold/silver with European bankers and received receipts, redeemable in Jerusalem.

- Bankers realized they could issue more notes than they held in gold/silver, charging interest and generating profit.
- **End of the Gold Standard:**
 - The Bank of England removed the gold standard in 1931.
 - The US followed in 1933; Federal Reserve Notes replaced gold-backed money.
- **Fiat Currency:**
 - Modern money is not backed by physical assets but by public confidence (“fiat”).
 - Enables the practice of fractional reserve banking, where banks can lend more than their actual reserves.

6. Legal Status and Authority

- **Judicial Endorsement:**

- Lord Denning stated:

"We have repeatedly said in this court that a bill of exchange or a promissory note is to be treated as cash. It is to be honoured unless there is some good reason to the contrary."

- (Fielding & Platt Ltd v Selim Najjar [1969] 1 W.L.R. 357 at 361; [1969] 2 All E.R. 150 at 152, CA)

π7. Key Features of Promissory Notes

Feature	Description
Negotiability	Can be transferred to others, making it a flexible payment instrument.
Unconditional Promise	Must be an absolute commitment to pay.
Written and Signed	Legally valid only if in writing and signed by the maker.
Certain Sum	Must specify a fixed or determinable amount of money.
Payable on Demand/Future Date	Must state when payment is due—either immediately or at a set time.

8. Advantages and Modern Use

- **Flexibility:**
Can be used for a wide range of transactions, from personal loans to business agreements.
- **Security:**
Provides a legal guarantee of payment.
- **Negotiability:**
Can be endorsed and transferred, facilitating commerce.

9. Conclusion

Promissory notes remain a vital negotiable instrument in the UK, offering flexibility, security, and legal recognition in commercial and personal transactions. Their historical evolution from gold-backed receipts to modern fiat currency instruments underscores their enduring importance in the financial system.