

CONTRACT OF AGENCY

Undisclosed Principal

BY –

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Undisclosed Principal

- Undisclosed principal is a person whose existence is not disclosed by the agent nor his representative character is expressed.



- On such transactions the agent is personally liable and being a party, he may be sued or may sue the third party.



- Section 231 of the Act provides for rights of parties to a contract made by agent not disclosed. It states that if an agent makes a contract with a person who neither knows,



- nor has reason to suspect, that he is an agent, his principal may require the performance of the contract;



- but the other contracting party has, as against the principal, the same rights as he would have had as against the agent if the agent had been principal.



- If the principal discloses himself before the contract is completed, the other contracting party may refuse to fulfil the contract, if he can show that,



- if he had known who was the principal in the contract, or if he had known that the agent was not a principal, he would not have entered into the contract.



- Sometimes, an agent enters into a contract with a third person without disclosing all the facts of agency. He not only conceals the name of the principal but also the fact that he is an agent.



- This gives rise to the doctrine of undisclosed principal. Thus, where the agent has authority in fact, but does not disclose the existence of agency, the principal is called an undisclosed principal.



- When the principal is undisclosed, the liability under Section 230 (2) is of the agent only, and the principal cannot be sued in such a case;



- however, the principal, on being discovered by the third person, will also be liable. Thus, the third person who deals with the agent does not lose his rights against the principal.



- Section 232 of the Act provides that where one man makes a contract with another, neither knowing nor having reasonable ground to suspect that the other is an agent,



- the principal, if he requires the performance of the contract, can only obtain such performance subject to the rights and obligations subsisting between the agent and the other party to the contract.



For example,

- 'A', who owes Rs. 500 to 'B', sells Rs. 1,000 worth of rice to 'B'. 'A' is acting as agent for 'C' in the transaction,



- but 'B' has no knowledge nor reasonable ground of suspicion that such is the case. 'C' cannot compel 'B' to take the rice without allowing him to set-off A's debt.





THANK
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