

Basic Introduction of Misinterpretation

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ABSTRACT:

Misinterpretation is a crucial area of contract law that examines the effects of incorrectly communicating the terms and intentions of a contract between the parties. This abstract explores the reasons for misinterpretations of contractual agreements, their effects, and the possible legal remedies to deal with them. The research examines a number of misinterpretation-causing elements, such as confusing language, cultural differences, and poor communication. It also looks at how misunderstanding affects the creation and execution of contracts, resulting in disagreements, violations, and challenges to the enforceability of contracts. Contractual disagreements brought on by misunderstandings may be time-consuming, expensive, and harmful to the relationship between the parties. The principles of contra proferentem interpreting ambiguous terms against the party who included them and rectification correcting errors in the written contract to reflect the parties' true intentions are just a couple of the possible solutions explored in this abstract to address these problems.

KEYWORDS:

Concealment, Misinterpretation, Rectification, Rescission.

I. INTRODUCTION

Misinterpretation, which happens when the parties involved have conflicting understandings or interpretations of the words and intentions specified in a contract, is a frequent problem in contract law. When one party's intentions or expectations differ from what the other party sees or understands, this is referred to as a communication gap. In terms of contract law, effective communication is crucial to the creation and execution of a legally binding agreement. However, misunderstanding may occur for a number of reasons, including imprecise or ambiguous language, linguistic or cultural disparities, or insufficient or inadequate communication between the parties [1], [2].

Misinterpretation might have serious repercussions. As a result of opposing expectations or presumptions between the parties on their respective rights and duties, it may result in misunderstandings, disagreements, and even contract violations. Misinterpretation threatens the contract's basic intent and damages the parties' mutual trust and cooperation. To guarantee that the parties' intentions are completely understood and their contractual rights and responsibilities are appropriately matched, addressing misunderstanding needs rigorous study and resolution. To lessen the impacts of misunderstanding and provide just and equitable resolutions to the parties concerned, legal concepts and remedies are available [3], [4].

This introduction lays the groundwork for a more in-depth investigation of misunderstandings in contract law. It emphasises the need of effective and clear communication in commercial agreements, describes the origins and effects of misunderstanding, and stresses the necessity of legal processes to deal with and resolve misunderstandings. Understanding misunderstanding and its effects allows parties to take proactive steps to reduce the likelihood of disagreements and promote a more fruitful and amicable working relationship.

II. DISCUSSION

Misrepresentation: What Is It?

A misleading statement of a substantial fact made by one party that influences the other party's decision to enter into a contract is referred to as a misrepresentation. The agreement may be deemed invalid if the deception is uncovered. The person that has been negatively damaged may claim damages depending on the circumstances. In

this kind of contract dispute, the plaintiff is the person asserting the claim, and the party accused of creating the misrepresentation is the defendant [5], [6].

How Misrepresentation Works

Only factual statements are subject to misrepresentation; forecasts or views are not included. Any transaction, regardless of its value, may be considered to have been breached by misrepresentation. In a private transaction, a car salesperson may falsify the mileage to a potential buyer, luring them into buying the vehicle. The buyer has the right to sue the seller if they misrepresented the amount of wear and tear the automobile has. A misrepresentation may be seen by a lender as an event of default in circumstances with greater stakes, such as in a credit arrangement. In the meanwhile, making false statements might lead to the termination of a merger and acquisition (M&A) agreement, in which case a significant break fee could be imposed [7], [8].

Particular Considerations

In certain circumstances, such as those involving a fiduciary relationship, misrepresentation may happen via omission. In other words, misrepresentation may happen if a fiduciary with knowledge of significant facts fails to disclose them. Any factual remarks that subsequently turn out to be false have an obligation to be corrected. In this instance, a misrepresentation would be the refusal to rectify a prior misleading statement.

Types of Misrepresentations

There are three types of misrepresentations.

1. A false statement of a substantial fact made by the defendant that was untrue when the contract was signed constitutes innocent misrepresentation. Rescission or cancellation of the contract is often the appropriate course of action in this case.
2. Negligent misrepresentation is when the defendant made a claim without making any effort to confirm that it was accurate prior to signing a contract. This goes against the idea of "reasonable care" that a party is required to use before making an agreement. Contract revocation and maybe financial compensation are the remedies for irresponsible misrepresentation.
3. A statement that the defendant made carelessly or with knowledge that it was untrue in order to persuade the other party to enter into a contract is considered fraudulent misrepresentation. The harmed party has the right to demand that the contract be invalid and compensation from the defendant.

How to Prove Misrepresentation

There are six legal hurdles that the plaintiff must clear in order to claim damages as a result of misrepresentation [9], [10]. The claimant must demonstrate that:

1. A representation was made.
2. The representation was false.
3. The defendant either made the representation carelessly while ignorant of its falsity or knew it to be untrue at the time it was made.
4. In order for the plaintiff to rely on the representation, it has to be made.
5. The erroneous representation was used by the plaintiff.
6. By relying on the deceptive representation, the plaintiff was harmed.

In order for a plaintiff to succeed in a lawsuit for misrepresentation, all six of these conditions must be satisfied. In one of these circumstances, the defendant is not required to refute each of these allegations.

Misrepresentation Example

Elon Musk, the CEO of Tesla, made a \$43 billion buyout offer to Twitter in 2020, which the firm first rejected but then accepted. A few weeks later, when Twitter's stock price had dropped significantly, Musk made an effort to back out of the agreement, saying that Twitter had exaggerated the number of human users on the network. Musk claimed that Twitter had willfully overstated the number of live users on its network, and that he had relied on those misleading assertions when he made his acquisition bid, according to his termination letter. Twitter

responded by saying that Musk's claims were "factually inaccurate" and that the businessman was only attempting to cancel the merger that he had personally proposed.

Statement of the Untrue

Again, in general, a statement is a misrepresentation if it does not comply with the facts (a fact is anything that can be verified as true). Falsity is independent of motive. A typographical mistake that goes undetected in a letter (forgetting the word "not," for instance, or accidentally swapping numbers, for example) may constitute a misrepresentation on which the receiver may depend (it is not a fraudulent deception, though). When the seller of a hotel claims that money is generated from both transitory and permanent visitors but fails to mention that the majority of the income is from one-night stopovers by seafarers utilising the hotel as a brothel, this is an example of a half-truth that amounts to deception.²⁶¹ P.2d 684 (Wash. 1951); *Ikeda v. Curtis*.

Concealment

The act of concealing is another kind of misrepresentation. It is an action that serves to keep the other party from discovering the real condition of circumstances and is similar to stating that the facts are the opposite; it is lying. A typical illustration is painting over construction flaws; by doing so, the owner misrepresents the property's state. The act of concealing need not be overt; it might just include distracting the other party from learning crucial information, for as by persuading a third party with knowledge of the flaw to remain silent. A lie is always spoken when something is kept hidden.

Nondisclosure is a more passive kind of concealing. The law normally does not require someone to speak out, but in certain situations, failing to disclose a truth may be seen as a misrepresentation. This happens, for instance, when the opposing party has inaccurate information, as demonstrated in *Reed v. King*, "Misrepresentation by Concealed Information", or when the nondisclosure amounts to a breach of good faith, or when the party who conceals knows or should know that the opposing party cannot, with reasonable diligence, ascertain the truth.

In a notable 1991 New York case, a stockbroker from New York City purchased an old house upstate (basically anywhere north of New York City), in the village of Nyack, and then wanted out of the deal after learning the defendant seller had not disclosed that it was "haunted." According to the court's summary of the circumstances, the plaintiff was horrified to learn that the property he had just signed a contract to buy was known to be haunted by poltergeists (ghosts), who had apparently been seen often during the previous nine years by the defendant seller and members of her family. Plaintiff quickly filed this lawsuit in an effort to cancel the selling agreement. Despite its reluctance, the Supreme Court rejected the suit, ruling that the plaintiff was without legal recourse in this country. Because the home was "haunted as a matter of law" and the defendant had advertised it as such in *Reader's Digest* and on village tours, the top court of New York determined that he may cancel the contract. Because she had covered it up, no logical buyer investigation would have turned up the "fact." In essence, the minority yelled, "The existence of a poltergeist is no more binding upon the defendants than it is upon this court." *Ackley*, 169 A.D.2d 254 (N.Y. 1991); *Stamovsky*.

Statement Falsified by Subsequent Occurrences

A factual statement must be acknowledged as untrue if subsequent circumstances render it so. For instance, Alphonse once informs Gaston that he is the owner of thirty acres of property during casual conversation. Alphonse really only owned 27, but he chose to exaggerate a bit. Since the topic of the talk was irrelevant, he didn't intend any damage. A year later, Gaston makes Alphonse an offer to acquire the "thirty acres" but Alphonse does not change his perception. In this case, the silence is a nondisclosure that Gaston may use to cancel a contract that was prompted by his mistaken idea that he was buying thirty acres.

Expressions of Opinion

Of course, an opinion is not a reality, and neither is sales hype. For instance, the claims "These apples are the best in the county" and "In my opinion this apple is very tasty" are not facts and should not be treated as such. Dependence on opinion is dangerous and often not justified. Mr. Olson's remark of "Great!" in response to Jack's question about the condition of the automobile he wants to purchase is not often seen as a deception. In the words of the Restatement, "The propensity of sellers and buyers to exaggerate the advantages to the other party of the bargains they promise is well recognised, and to some extent their assertions must be discounted." Section 168(d)

of the Restatement (Second) of Contracts. Vague assertions of quality, such as calling a product "good," should only imply that the individual making the remark has that view.

Despite this overarching principle, there are several exceptions that allow for reliance on views and effectively transform them into facts. A claim of justified reliance on an improper judgement does not arise simply because someone is less intelligent than the person with whom she is haggling. However, if the individual is inexperienced and naïve to flattery, the contract may be invalid, as shown in *Vokes v. Arthur Murray, Inc.*, "Misrepresentation by Assertions of Opinion".

A false declaration of a substantial fact made by one party that has an impact on the other party's choice in accordance with a contract is referred to as a misrepresentation. In the event that the misrepresentation is discovered, the contract may be deemed invalid and, depending on the circumstances, the party that was negatively harmed may claim damages. In such a contract dispute, the misrepresenter is designated the defendant, and the party who was wronged is called the plaintiff.

Contract law misrepresentation is crucial in corporate transactions when large transactions happen often. Misrepresentations of the value and/or risk associated with an agreement may result in significant financial losses for both parties, increasing the risk of joint ventures. In order to ensure justice and reduce the danger of contracts between people and corporations, misrepresentation contract law is essential. First, we must comprehend what is meant by representation in the context of contracts in order to comprehend the idea of misrepresentation. A statement that creates the entrance into a contract but is not a term of the contract is referred to as a representation. Misrepresentation occurs when one party (or their agent) provides the other with false information in order to persuade them to enter into a contract. A person may rescind a contract or seek damages if they made it in reliance on a false representation and suffered loss as a consequence.

Remedies of Misrepresentation

As is common knowledge, a contract that contains material misrepresentation, even if done unintentionally, is voidable. Considering this, the following are the remedies for misrepresentation:

Rescind: To rescind is to revoke. The party that feels wronged has the right to request contract termination and/or monetary damages at any time. Rescission is the legal term for the dissolution of a contract between two parties. The process of rescinding a transaction. The goal of this is to return the parties as closely as possible to their pre-contractual situation, or the status quo ante.

Demand the performance: The party who has been wronged may make a claim against the first party in order to get the object in a way that was not expressly provided for in the contract.

1967's Misrepresentation Act

For the first time, a remedy of damages for non-fraudulent misrepresentation was granted by the Misrepresentation Act of 1967. Where the individual would have had a remedy if the deception had been fraudulent, a remedy is now available. This clause is found in section 2(1) and reads as follows: If a person enters into a contract after another party has made a misrepresentation to him and as a result, he or she suffers loss, then, if the person making the misrepresentation would have been liable to damages in respect thereof had the misrepresentation been made fraudulently, that person shall be so liable regardless of whether the misrepresentation was made fraudulently, unless he or she proves that According to this part of the Act, the defendant must demonstrate that it was both reasonable for him to believe in the truth of his claims and that he really did. Note that in this manner, after misrepresentation has been asserted, the burden of evidence changes to the creator of the statement to disprove carelessness, unlike the common law obligation to establish culpability. As may be seen in the following instance, it is difficult to remove this weight.

The question of how damages should be calculated then comes after it has been agreed that they should be given. They are often evaluated in contracts based on expectations, or what the party would have gotten if the contract had been properly carried out. Naturally, this would account for any lost revenue. The goal of reliance-based damage assessments in tort law, on the other hand, is to return parties to the position they would have been in at the beginning had the wrong not occurred. Therefore, a sale returns parties to their starting position but does not make up for lost profit. In the case of *Royscott v. Rogerson* (1991), it was held that damages under the

Misrepresentation Act of 1967 should also be given on this basis since fraud damages are evaluated on a tort basis. However, the decision of *East v. Maurer* (1991), which stated that in certain situations lost earnings may also be recovered, has taken this a step further.

Indemnity

The court may impose an indemnity to go along with a revocation order in an effort to put the parties back in their pre-revocation position. This should be separated from damages since it is a monetary payment for duties that the contract inevitably creates. The following scenario demonstrates the distinction quite clearly.

(1900) *Whittington v. Seale-Hayne*

A farm's buyer specifically inquired about the water supply, drainage, and sewage system, and was informed that everything was in working condition. He then purchased the property and set up his prized chickens there. The manager was sick as a consequence of the poor water system and drainage, and many of the chickens perished as a result. Since the deception was not fraudulent and this occurred before the deception Act of 1967, the court permitted rescission, but damages were not due. As far as the farm was concerned, this put the buyer back in the original situation, and an indemnity was imposed to pay back the expenses necessary to purchase the property, such as rates and other legal obligations. Although it was claimed that the buyer had a choice on whether to install the chickens on the farm, it did not compensate for the cost of the fowl.

If the issue had been brought up today, the situation may have been different since damages rather than an indemnity might have been attainable. Since the Misrepresentation Act of 1967, an indemnity may still be granted; however, it will not be applicable when damages are awarded. In the event that a contract is cancelled due to a fully innocent misrepresentation, it is a helpful remedy.

Rescission

Revocating a contract means putting it aside. The objective is to cancel the contract *ab initio*, or from the commencement, in order to return the parties to their pre-contractual circumstances. Whether the deception is fraudulent or not, even if it is entirely harmless, a contract may be cancelled. The contract is not invalid when a misrepresentation takes place; rather, it is voidable. This implies that until the party to whom the deception has been made decides to put it aside, it will stay in effect. The aggrieved party must state which of the following he intends to revoke:

1. by directly informing the other party, or
2. by doing some other action that blatantly indicates he does not intend to be bound by the agreement.

In the Court of Appeal Case *Car and Universal Finance Co Ltd v. Caldwell* (1965), which had a similar scenario, it was decided that contacting the police and other relevant authorities would constitute proof of the desire to rescind.

Barriers to Revocation

It is obvious that if misrepresentation is proven, there is a broad right to rescind. However, since rescission is grounded in equity, it renders the contract voidable rather than void, and in certain cases, the court may find that terminating the contract would be unjust and so prohibited. The following situations are ones when this occurs.

Statutory bar

The court may award damages instead of revocation in accordance with the Misrepresentation Act of 1967 section 2(2) (see above). This issue came up in the recent *Zanzibar v. British Aerospace* (2000) lawsuit.

Lapse of time

The right to do so can be lost if someone learns of a misrepresentation but waits too long to assert their claim. In *Leaf v. International Galleries* (1950), a picture that was believed to be a Constable was discovered to be a copy five years after the sale, but it was too late to cancel the transaction. It should be noted that the amount of time varies somewhat depending on whether the misstatement was made fraudulently or not. A claim for a false misrepresentation may be submitted at any time after the deception is discovered, therefore the passage of time

seldom becomes a problem. It is crucial that the misrepresentation be identified as soon as possible since, as in *Leaf V. International Galleries*, the period for non-fraudulent misrepresentation is calculated from the moment of contract.

Affirmation

A confirmation shows that the party that made a false representation is prepared to uphold the terms of the agreement and maybe pursue damages. This came up in the case of *Long v. Lloyd* (1958), in which a truck driver purchased a truck concerning which the vendor had made allegations. The buyer called the seller and agreed to split the cost of repairs when it turned out that they were inaccurate and the truck started having issues. The truck broke down once again after the buyer had taken it on another trip. He subsequently attempted to revoke the agreement, but it was determined that by agreeing to split expenses and use the truck, he had implied confirmation and waived his right to do so.

Restitution impossible

Items must be returned in their original condition in order to make a revocation claim. The courts understand that complete restitution is not always attainable since certain items must be utilised in order to uncover the deception. But it ought to be as close to being finished as feasible. Restitution of a mine in *Vigers v. Pike* (1842) was not feasible due to extensive exploitation.

In comparison to contract breach remedies

If there is a major violation of the terms of the contract, the remedy is the right to reject the agreement. With misrepresentation, the ability to revoke is more expansive but still subject to restrictions. Damages are paid out on an expectation basis when there is a breach, and on a tortious, or reliant, basis when there is a misrepresentation. This would have prevented someone suing for deception from receiving lost profit compensation, but now that it is possible, the two remedies are remarkably comparable. Figure 1 shows the Remedies for misrepresentation.

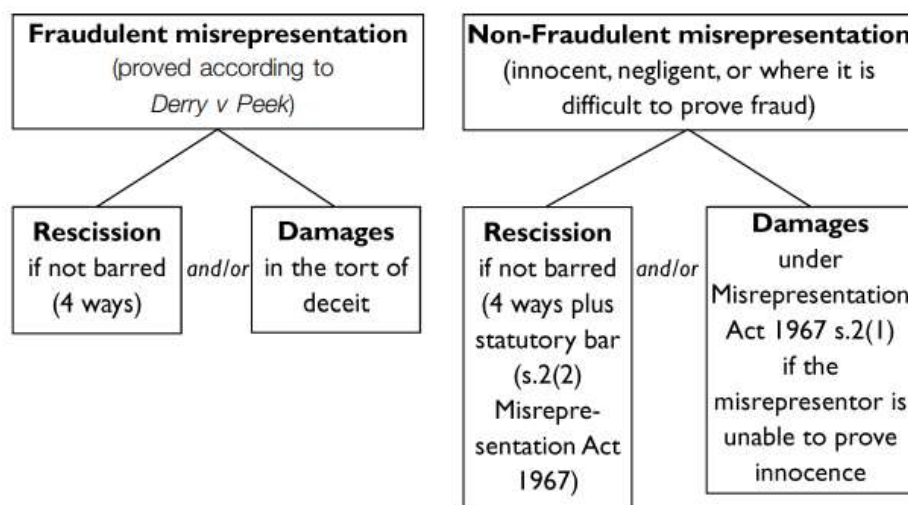


Figure 1: Remedies for misrepresentation [hzu].

III. CONCLUSION

In conclusion, incorrect application of contract law may have a big impact on how contracts are created, carried out, and enforced. It happens when the parties to a contract have an inaccurate or incomplete knowledge of its terms, purposes, or duties. A number of things, such as imprecise language, cultural differences, and poor communication, may lead to misinterpretation. Such misconceptions may result in conflicts, violations, and legal issues that might sour the relationship between the parties. Examining the contract provisions, the context in which they were agreed upon, and the intents of the parties is necessary to resolve misunderstanding concerns. To deal with misunderstanding, the correction and contra proferentem principles are often used. Contra proferentem requires that confusing phrases be construed against the party that drafted them, while rectification permits changes to be made to the written agreement to reflect the parties' genuine intentions.

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