

HOUSE BILL REPORT

HB 1095

As Amended by the Senate

Title: An act relating to funds transfers.

Brief Description: Adding a new Article regarding funds transfers to the Uniform Commercial Code.

Sponsor(s): Representatives Appelwick, Dellwo and Paris.

Brief History:

Reported by House Committee on:
Financial Institutions & Insurance, February 21, 1991,
DP;
Passed House, March 12, 1991, 95-0;
Amended by Senate.

**HOUSE COMMITTEE ON
FINANCIAL INSTITUTIONS & INSURANCE**

Majority Report: *Do pass.* Signed by 13 members:
Representatives Dellwo, Chair; Zellinsky, Vice Chair;
Broback, Ranking Minority Member; Mielke, Assistant Ranking
Minority Member; Anderson; Dorn; Inslee; R. Johnson;
R. Meyers; Paris; Schmidt; Scott; and Winsley.

Staff: John Conniff (786-7119).

Background: In part, the state Uniform Commercial Code (UCC) governs bank deposits and collections. In addition, the federal Electronic Fund Transfer Act covers some aspects of consumer electronic banking. However, when the UCC was originally drafted and recommended for adoption by each of the 50 states, financial institutions did not rely extensively upon sophisticated computer and telecommunication networks to transfer funds between financial institutions. As a result of technological changes in the conduct of financial institution business, such electronic transactions among financial institutions now involve funds totalling over 1 trillion dollars each day. Existing statutes and regulations do not adequately address the rights and responsibilities of parties to fund transfers and particularly parties to wire transfers.

Last year, the National Conference of Commissioners on Uniform State Laws and the American Law Institute approved a new article of the UCC and recommended its adoption by each

of the 50 states. The new Article 4A would govern the rights and responsibilities of banks and their customers in electronic payments. To date, the new Article 4A has been adopted by at least 11 states.

Summary of Bill: A new Article 4A, entitled Funds Transfers, is added to the state UCC. The new article governs the rights and responsibilities of parties to a funds transfer executed by or through financial institutions. These provisions include standards for issue and acceptance of payment orders, execution of payment orders, and the enforceability of payment orders. The new article addresses the liabilities of the financial institutions involved in such transactions.

Federal Reserve Board regulations supersede the new article when such regulations are inconsistent with the article and the federal Electronic Fund Transfer Act supersedes funds transfers governed in any part by such act.

Banks must develop and follow commercially reasonable security procedures for detecting errors or unauthorized payment orders. Rules are established governing liability for and refunds of unauthorized or improper payments.

Standards are established for the acceptance, rejection, cancellation and amendment of funds transfer payment orders.

The rights and responsibilities of parties to a funds transfer may differ from the new article as agreed by the parties. Rules of an association of banks governing transmission of payment orders may be effective even if such rules differ from the new article or affect a party who has not consented to the association's rules.

Effect of Senate Amendment(s): Many technical changes are made including clarification of acceptance of payment orders, and connection of statutory references.

Fiscal Note: Not requested.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: The new Uniform Commercial Code Article 4A is needed to address modern banking practices and concerns activities that involve large complex transactions among banks.

Testimony Against: None.

Witnesses: Trevor Sandison, Washington Bankers Association
(Pro).