

FINAL BILL REPORT

HB 1095

C 21 L 91 E1
Synopsis As Enacted

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

By Representatives Appelwick, Dellwo and Paris.

House Committee on Financial Institutions and Insurance
Senate Committee on Financial Institutions and Insurance

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. 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: A new Article 4A, entitled Funds Transfers, is added to the state Uniform Commercial Code. The new article governs the rights and responsibilities of parties to a funds transfer executed by or through financial institutions. Provisions in the new article 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 the new article for funds transfers governed in any part by the federal 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.

Votes on Final Passage:

House 95 0

First Special Session

House 93 0
Senate 46 0 (Senate amended)
House 94 0 (House concurred)

Effective: September 28, 1991