

SENATE BILL REPORT

HB 1095

AS REPORTED BY COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE,
APRIL 5, 1991

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

SPONSORS: Representatives Appelwick, Dellwo and Paris.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

SENATE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass as amended.

Signed by Senators von Reichbauer, Chairman; Johnson, Vice Chairman; Moore, Owen, Pelz, Rasmussen, Sellar, Vognild, and West.

Staff: Meg Jones (786-7416)

Hearing Dates: April 2, 1991; April 5, 1991

BACKGROUND:

The state Uniform Commercial Code (UCC) and the federal Electronic Fund Transfer Act govern aspects of electronic banking. As a result of technological changes in the conduct of financial institution business, concern has arisen that existing statutes and regulations do not adequately address the rights and responsibilities of parties to fund transfers and particularly parties to wire transfers.

The National Conference of Commissioners on Uniform State Laws and the American Law Institute have 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, 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 (UCC). Article 4A governs the rights and responsibilities of parties to a funds transfer executed by or through financial institutions and includes standards for the issuance, acceptance, execution and enforceability of payment orders. Article 4A also addresses the liabilities of the financial institutions involved in such transactions.

Federal Reserve Board regulations supersede Article 4A when such regulations are inconsistent with the article and the

federal Electronic Fund Transfer Act supersedes funds transfers governed in any part by that 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 Article 4A 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 Article 4A or affect a party who has not consented to the association's rules.

Appropriation: none

Revenue: none

Fiscal Note: none requested

SUMMARY OF PROPOSED SENATE AMENDMENT:

The language conforms with the proposed language of the National Conference of Commissioners on Uniform State Laws and the American Law Institute.

TESTIMONY FOR:

The new Uniform Commercial Code Article 4A is needed to fill gaps in statutory coverage created by modern banking practices involving transactions among banks.

TESTIMONY AGAINST: None

TESTIFIED: Trevor Sandison, Washington Bankers Association (pro)