

CERTIFICATION OF ENROLLMENT

HOUSE BILL 1095

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52nd Legislature
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UNIFORM COMMERCIAL CODE--ARTICLE 4A--FUNDS TRANSFERS

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Yeas 94 Nays 0

JOE KING
**Speaker of the
House of Representatives**

Passed by the Senate June 24, 1991
Yeas 46 Nays 0

JOEL PRITCHARD
President of the Senate

Approved July 2, 1991

BOOTH GARDNER
Governor of the State of Washington

CERTIFICATE

I, Alan Thompson, Chief Clerk of the House of Representatives of the State of Washington, do hereby certify that the attached is **HOUSE BILL 1095** as passed by the House of Representatives and the Senate on the dates hereon set forth.

ALAN THOMPSON
Chief Clerk

FILED

July 2, 1991 - 6:15 p.m.

**Secretary of State
State of Washington**

1 NEW SECTION. **Sec. 4A-103.** PAYMENT ORDER--DEFINITIONS. (1) In

2 this Article:

3 (a) "Payment order" means an instruction of a sender to a receiving
4 bank, transmitted orally, electronically, or in writing, to pay, or to
5 cause another bank to pay, a fixed or determinable amount of money to
6 a beneficiary if:

7 (i) The instruction does not state a condition of payment to the
8 beneficiary other than time of payment;

9 (ii) The receiving bank is to be reimbursed by debiting an account
10 of, or otherwise receiving payment from, the sender; and

11 (iii) The instruction is transmitted by the sender directly to the
12 receiving bank or to an agent, funds-transfer system, or communication
13 system for transmittal to the receiving bank.

14 (b) "Beneficiary" means the person to be paid by the beneficiary's
15 bank.

16 (c) "Beneficiary's bank" means the bank identified in a payment
17 order in which an account of the beneficiary is to be credited pursuant
18 to the order or which otherwise is to make payment to the beneficiary
19 if the order does not provide for payment to an account.

20 (d) "Receiving bank" means the bank to which the sender's
21 instruction is addressed.

22 (e) "Sender" means the person giving the instruction to the
23 receiving bank.

24 (2) If an instruction complying with subsection (1)(a) of this
25 section is to make more than one payment to a beneficiary, the
26 instruction is a separate payment order with respect to each payment.

27 (3) A payment order is issued when it is sent to the receiving
28 bank.

1 NEW SECTION. **Sec. 4A-104.** FUNDS TRANSFER--DEFINITIONS. In this
2 Article:

3 (1) "Funds transfer" means the series of transactions, beginning
4 with the originator's payment order, made for the purpose of making
5 payment to the beneficiary of the order. The term includes any payment
6 order issued by the originator's bank or an intermediary bank intended
7 to carry out the originator's payment order. A funds transfer is
8 completed by acceptance by the beneficiary's bank of a payment order
9 for the benefit of the beneficiary of the originator's payment order.

10 (2) "Intermediary bank" means a receiving bank other than the
11 originator's bank or the beneficiary's bank.

12 (3) "Originator" means the sender of the first payment order in a
13 funds transfer.

14 (4) "Originator's bank" means (a) the receiving bank to which the
15 payment order of the originator is issued if the originator is not a
16 bank, or (b) the originator if the originator is a bank.

17 NEW SECTION. **Sec. 4A-105.** OTHER DEFINITIONS. (1) In this
18 Article:

19 (a) "Authorized account" means a deposit account of a customer in
20 a bank designated by the customer as a source of payment orders issued
21 by the customer to the bank. If a customer does not so designate an
22 account, any account of the customer is an authorized account if
23 payment of a payment order from that account is not inconsistent with
24 a restriction on the use of the account.

25 (b) "Bank" means a person engaged in the business of banking and
26 includes a savings bank, savings and loan association, credit union,
27 and trust company. A branch or separate office of a bank is a separate
28 bank for purposes of this Article.

1 (c) "Customer" means a person, including a bank, having an account
2 with a bank or from whom a bank has agreed to receive payment orders.

3 (d) "Funds-transfer business day" of a receiving bank means the
4 part of a day during which the receiving bank is open for the receipt,
5 processing, and transmittal of payment orders and cancellations and
6 amendments of payment orders.

7 (e) "Funds-transfer system" means a wire transfer network,
8 automated clearing house, or other communication system of a clearing
9 house or other association of banks through which a payment order by a
10 bank may be transmitted to the bank to which the order is addressed.

11 (f) "Good faith" means honesty in fact and the observance of
12 reasonable commercial standards of fair dealing.

13 (g) "Prove" with respect to a fact means to meet the burden of
14 establishing the fact (RCW 62A.1-201(8)).

15 (2) Other definitions applying to this Article and the sections in
16 which they appear are:

17	"Acceptance"	section 4A-209 of this act
18	"Beneficiary"	section 4A-103 of this act
19	"Beneficiary's bank"	section 4A-103 of this act
20	"Executed"	section 4A-301 of this act
21	"Execution date"	section 4A-301 of this act
22	"Funds transfer"	section 4A-104 of this act
23	"Funds-transfer system rule"	section 4A-501 of this act
24	"Intermediary bank"	section 4A-104 of this act
25	"Originator"	section 4A-104 of this act
26	"Originator's bank"	section 4A-104 of this act
27	"Payment by beneficiary's bank 28 to beneficiary"	section 4A-405 of this act
29	"Payment by originator to 30 beneficiary"	section 4A-406 of this act
31	"Payment by sender to	section 4A-403 of this act

1 receiving bank"
2 "Payment date" section 4A-401 of this act
3 "Payment order" section 4A-103 of this act
4 "Receiving bank" section 4A-103 of this act
5 "Security procedure" section 4A-201 of this act
6 "Sender" section 4A-103 of this act

7 (3) The following definitions in Article 4 (RCW 62A.4-101 through
8 62A.4-504) apply to this Article:

9 "Clearing house" section 4-104 of this act
10 "Item" section 4-104 of this act
11 "Suspends payments" sections 4-104 of this act

12 (4) In addition to Article 1 (RCW 62A.1-101 through 62A.1-208)
13 contains general definitions and principles of construction and
14 interpretation applicable throughout this Article.

15 NEW SECTION. **Sec. 4A-106.** TIME PAYMENT ORDER IS RECEIVED. (1)
16 The time of receipt of a payment order or communication canceling or
17 amending a payment order is determined by the rules applicable to
18 receipt of a notice stated in RCW 62A.1-201(27). A receiving bank may
19 fix a cut-off time or times on a funds-transfer business day for the
20 receipt and processing of payment orders and communications canceling
21 or amending payment orders. Different cut-off times may apply to
22 payment orders, cancellations, or amendments, or to different
23 categories of payment orders, cancellations, or amendments. A cut-off
24 time may apply to senders generally or different cut-off times may
25 apply to different senders or categories of payment orders. If a
26 payment order or communication canceling or amending a payment order is
27 received after the close of a funds-transfer business day or after the
28 appropriate cut-off time on a funds-transfer business day, the

1 receiving bank may treat the payment order or communication as received
2 at the opening of the next funds-transfer business day.

3 (2) If this Article refers to an execution date or payment date or
4 states a day on which a receiving bank is required to take action, and
5 the date or day does not fall on a funds-transfer business day, the
6 next day that is a funds-transfer business day is treated as the date
7 or day stated, unless the contrary is stated in this Article.

8 NEW SECTION. **Sec. 4A-107.** FEDERAL RESERVE REGULATIONS AND
9 OPERATING CIRCULARS. Regulations of the board of governors of the
10 federal reserve system and operating circulars of the federal reserve
11 banks supersede any inconsistent provision of this Article to the
12 extent of the inconsistency.

13 NEW SECTION. **Sec. 4A-108.** EXCLUSION OF CONSUMER TRANSACTIONS
14 GOVERNED BY FEDERAL LAW. This Article does not apply to a funds
15 transfer any part of which is governed by the Electronic Fund Transfer
16 Act of 1978 (Title XX, P.L. 95-630, 92 Stat. 3728, 15 U.S.C. Sec. 1693
17 et seq.) as amended from time to time.

18 PART 2

19 ISSUE AND ACCEPTANCE OF PAYMENT ORDER

20 NEW SECTION. **Sec. 4A-201.** SECURITY PROCEDURE. "Security
21 procedure" means a procedure established by agreement of a customer and
22 a receiving bank for the purpose of (1) verifying that a payment order
23 or communication amending or canceling a payment order is that of the
24 customer, or (2) detecting error in the transmission or the content of
25 the payment order or communication. A security procedure may require
26 the use of algorithms or other codes, identifying words or numbers,

1 encryption, callback procedures, or similar security devices.
2 Comparison of a signature on a payment order or communication with an
3 authorized specimen signature of the customer is not by itself a
4 security procedure.

5 NEW SECTION. **Sec. 4A-202.** AUTHORIZED AND VERIFIED PAYMENT ORDERS.

6 (1) A payment order received by the receiving bank is the authorized
7 order of the person identified as sender if that person authorized the
8 order or is otherwise bound by it under the law of agency.

9 (2) If a bank and its customer have agreed that the authenticity of
10 payment orders issued to the bank in the name of the customer as sender
11 will be verified pursuant to a security procedure, a payment order
12 received by the receiving bank is effective as the order of the
13 customer, whether or not authorized, if (a) the security procedure is
14 a commercially reasonable method of providing security against
15 unauthorized payment orders, and (b) the bank proves that it accepted
16 the payment order in good faith and in compliance with the security
17 procedure and any written agreement or instruction of the customer
18 restricting acceptance of payment orders issued in the name of the
19 customer. The bank is not required to follow an instruction that
20 violates a written agreement with the customer or notice of which is
21 not received at a time and in a manner affording the bank a reasonable
22 opportunity to act on it before the payment order is accepted.

23 (3) Commercial reasonableness of a security procedure is a question
24 of law to be determined by considering the wishes of the customer
25 expressed to the bank, the circumstances of the customer known to the
26 bank, including the size, type, and frequency of payment orders
27 normally issued by the customer to the bank, alternative security
28 procedures offered to the customer, and security procedures in general
29 use by customers and receiving banks similarly situated. A security

1 procedure is deemed to be commercially reasonable if (a) the security
2 procedure was chosen the customer after the bank offered, and the
3 customer refused, a security procedure that was commercially reasonable
4 for that customer, and (b) the customer expressly agreed in writing to
5 be bound by any payment order, whether or not authorized, issued in its
6 name, and accepted by the bank in compliance with the security
7 procedure chosen by the customer.

8 (4) The term "sender" in this Article includes the customer in
9 whose name a payment order is issued if the order is the authorized
10 order of the customer under subsection (1) of this section, or it is
11 effective as the order of the customer under subsection (2) of this
12 section.

13 (5) This section applies to amendments and cancellations of payment
14 orders to the same extent it applies to payment orders.

15 (6) Except as provided in this section and section 4A-203(1)(a) of
16 this act, rights and obligations arising under this section or section
17 4A-203 of this act may not be varied by agreement.

18 NEW SECTION. **Sec. 4A-203.** UNENFORCEABILITY OF CERTAIN VERIFIED
19 PAYMENT ORDERS. (1) If an accepted payment order is not, under section
20 4A-202(1) of this act, an authorized order of a customer identified as
21 sender, but is effective as an order of the customer pursuant to
22 section 4A-202(2) of this act, the following rules apply.

23 (a) By express written agreement, the receiving bank may limit the
24 extent to which it is entitled to enforce or retain payment of the
25 payment order.

26 (b) The receiving bank is not entitled to enforce or retain payment
27 of the payment order if the customer proves that the order was not
28 caused, directly or indirectly, by a person (i) entrusted at any time
29 with duties to act for the customer with respect to payment orders or

1 the security procedure, or (ii) who obtained access to transmitting
2 facilities of the customer or who obtained, from a source controlled by
3 the customer and without authority of the receiving bank, information
4 facilitating breach of the security procedure, regardless of how the
5 information was obtained or whether the customer was at fault.
6 Information includes any access device, computer software, or the like.

7 (2) This section applies to amendments of payment orders to the
8 same extent it applies to payment orders.

9 NEW SECTION. **Sec. 4A-204.** REFUND OF PAYMENT AND DUTY OF CUSTOMER
10 TO REPORT WITH RESPECT UNAUTHORIZED PAYMENT ORDER. (1) If a receiving
11 bank accepts a payment order issued in the name of its customer as
12 sender which is (a) not authorized and not effective as the order of
13 the customer under section 4A-202 of this act, or (b) not enforceable,
14 in whole or in part, against the customer under section 4A-203 of this
15 act, the bank shall refund any payment of the payment order received
16 from the customer to the extent the bank is not entitled to enforce
17 payment and shall pay interest on the refundable amount calculated from
18 the date the bank received payment to the date of the refund. However,
19 the customer is not entitled to interest from the bank on the amount to
20 be refunded if the customer fails to exercise ordinary care to
21 determine that the order was not authorized by the customer and to
22 notify the bank of the relevant facts within a reasonable time not
23 exceeding ninety days after the date the customer received notification
24 from the bank that the order was accepted or that the customer's
25 account was debited with respect to the order. The bank is not
26 entitled to any recovery from the customer on account of a failure by
27 the customer to give notification as stated in this section.

28 (2) Reasonable time under subsection (1) of this section may be
29 fixed by agreement as stated in RCW 62A.1-204(1), but the obligation of

1 a receiving bank to refund payment as stated in subsection (1) may not
2 otherwise be varied by agreement.

3 NEW SECTION. **Sec. 4A-205.** ERRONEOUS PAYMENT ORDERS. (1) If an
4 accepted payment order was transmitted pursuant to a security procedure
5 for the detection of error and the payment order (a) erroneously
6 instructed payment to a beneficiary not intended by the sender, (b)
7 erroneously instructed payment in an amount greater than the amount
8 intended by the sender, or (c) was an erroneously transmitted duplicate
9 of a payment order previously sent by the sender, the following rules
10 apply:

11 (i) If the sender proves that the sender or a person acting on
12 behalf of the sender pursuant to section 4A-206 of this act complied
13 with the security procedure and that the error would have been detected
14 if the receiving bank had also complied, the sender is not obliged to
15 pay the order to the extent stated in (ii) and (iii) of this
16 subsection.

17 (ii) If the funds transfer is completed on the basis of an
18 erroneous payment order described in (b) or (c) of this subsection, the
19 sender is not obliged to pay the order and the receiving bank is
20 entitled to recover from the beneficiary any amount paid to the
21 beneficiary to the extent allowed by the law governing mistake and
22 restitution.

23 (iii) If the funds transfer is completed on the basis of a payment
24 order described in (b) of this subsection, the sender is not obliged to
25 pay the order to the extent the amount received by the beneficiary is
26 greater than the amount intended by the sender. In that case, the
27 receiving bank is entitled to recover from the beneficiary the excess
28 amount received to the extent allowed by the law governing mistake and
29 restitution.

1 (2) If (a) the sender of an erroneous payment order described in
2 subsection (1) of this section is not obliged to pay all or part of the
3 order, and (b) the sender receives notification from the receiving bank
4 that the order was accepted by the bank or that the sender's account
5 was debited with respect to the order, the sender has a duty to
6 exercise ordinary care, on the basis of information available to the
7 sender, to discover the error with respect to the order and to advise
8 the bank of the relevant facts within a reasonable time, not exceeding
9 ninety days, after the bank's notification was received by the sender.
10 If the bank proves that the sender failed to perform that duty, the
11 sender is liable to the bank for the loss the bank proves it incurred
12 as a result of the failure, but the liability of the sender may not
13 exceed the amount of the sender's order.

14 (3) This section applies to amendments to payment orders to the
15 same extent it applies to payment orders.

16 NEW SECTION. **Sec. 4A-206.** TRANSMISSION OF PAYMENT ORDER THROUGH
17 FUNDS-TRANSFER OR OTHER COMMUNICATION SYSTEM. (1) If a payment order
18 addressed to a receiving bank is transmitted to a funds-transfer system
19 or other third-party communication system for transmittal to the bank,
20 the system is deemed to be an agent of the sender for the purpose of
21 transmitting the payment order to the bank. If there is a discrepancy
22 between the terms of the payment order transmitted to the system and
23 the terms of the payment order transmitted by the system to the bank,
24 the terms of the payment order of the sender are those transmitted by
25 the system. This section does not apply to a funds-transfer system of
26 the federal reserve banks.

27 (2) This section applies to cancellations and amendments of payment
28 orders to the same extent it applies to payment orders.

1 NEW SECTION. **Sec. 4A-207.** MISDESCRIPTION OF BENEFICIARY. (1)

2 Subject to subsection (2) of this section, if, in a payment order
3 received by the beneficiary's bank, the name, bank account number, or
4 other identification of the beneficiary refers to a nonexistent or
5 unidentifiable person or account, no person has rights as a beneficiary
6 of the order and acceptance of the order cannot occur.

7 (2) If a payment order received by the beneficiary's bank
8 identifies the beneficiary both by name and by an identifying or bank
9 account number and the name and number identify different persons, the
10 following rules apply:

11 (a) Except as otherwise provided in subsection (3) of this section,
12 if the beneficiary's bank does not know that the name and number refer
13 to different persons, it may rely on the number as the proper
14 identification of the beneficiary of the order. The beneficiary's bank
15 need not determine whether the name and number refer to the same
16 person.

17 (b) If the beneficiary's bank pays the person identified by name or
18 knows that the name and number identify different persons, no person
19 has rights as beneficiary except the person paid by the beneficiary's
20 bank if that person was entitled to receive payment from the originator
21 of the funds transfer. If no person has rights as beneficiary,
22 acceptance of the order cannot occur.

23 (3) If (a) a payment order described in subsection (2) of this
24 section is accepted, (b) the originator's payment order described the
25 beneficiary inconsistently by name and number, and (c) the
26 beneficiary's bank pays the person identified by number as permitted by
27 subsection (2)(a) of this section, the following rules apply:

28 (i) If the originator is a bank, the originator is obliged to pay
29 its order.

1 (ii) If the originator is not a bank and proves that the person
2 identified by number was not entitled to receive payment from the
3 originator, the originator is not obliged to pay its order unless the
4 originator's bank proves that the originator, before acceptance of the
5 originator's order, had notice that payment of a payment order issued
6 by the originator might be made by the beneficiary's bank on the basis
7 of an identifying or bank account number even if it identifies a person
8 different from the named beneficiary. Proof of notice may be made by
9 any admissible evidence. The originator's bank satisfies the burden of
10 proof if it proves that the originator, before the payment order was
11 accepted, signed a writing stating the information to which the notice
12 relates.

13 (4) In a case governed by subsection (2)(a) of this section, if the
14 beneficiary's bank rightfully pays the person identified by number and
15 that person was not entitled to receive payment from the originator,
16 the amount paid may be recovered from that person to the extent allowed
17 by the law governing mistake and restitution as follows:

18 (a) If the originator is obliged to pay its payment order as stated
19 in subsection (3) of this section, the originator has the right to
20 recover.

21 (b) If the originator is not a bank and is not obliged to pay its
22 payment order, the originator's bank has the right to recover.

23 NEW SECTION. **Sec. 4A-208.** MISDESCRIPTION OF INTERMEDIARY BANK OR
24 BENEFCIARY'S BANK. (1) This subsection applies to a payment order
25 identifying an intermediary bank or the beneficiary's bank only by an
26 identifying number.

27 (a) The receiving bank may rely on the number as the proper
28 identification of the intermediary or beneficiary's bank and need not
29 determine whether the number identifies a bank.

1 (b) The sender is obliged to compensate the receiving bank for any
2 loss and expenses incurred by the receiving bank as a result of its
3 reliance on the number in executing or attempting to execute the order.

4 (2) This subsection applies to a payment order identifying an
5 intermediary bank or the beneficiary's bank both by name and an
6 identifying number if the name and number identify different persons.

7 (a) If the sender is a bank, the receiving bank may rely on the
8 number as the proper identification of the intermediary or
9 beneficiary's bank if the receiving bank, when it executes the sender's
10 order, does not know that the name and number identify different
11 persons. The receiving bank need not determine whether the name and
12 number refer to the same person or whether the number refers to a bank.
13 The sender is obliged to compensate the receiving bank for any loss and
14 expenses incurred by the receiving bank as a result of its reliance on
15 the number in executing or attempting to execute the order.

16 (b) If the sender is not a bank and the receiving bank proves that
17 the sender, before the payment order was accepted, had notice that the
18 receiving bank might rely on the number as the proper identification of
19 the intermediary or beneficiary's bank even if it identifies a person
20 different from the bank identified by name, the rights and obligations
21 of the sender and the receiving bank are governed by subsection (2)(a)
22 of this section, as though the sender were a bank. Proof of notice may
23 be made by any admissible evidence. The receiving bank satisfies the
24 burden of proof if it proves that the sender, before the payment order
25 was accepted, signed a writing stating the information to which the
26 notice relates.

27 (c) Regardless of whether the sender is a bank, the receiving bank
28 may rely on the name as the proper identification of the intermediary
29 or beneficiary's bank if the receiving bank, at the time it executes
30 the sender's order, does not know that the name and number identify

1 different persons. The receiving bank need not determine whether the
2 name and number refer to the same person.

3 (d) If the receiving bank knows that the name and number identify
4 different persons, reliance on either the name or the number in
5 executing the sender's payment order is a breach of the obligation
6 stated in section 4A-302(1)(a) of this act.

7 NEW SECTION. **Sec. 4A-209.** ACCEPTANCE OF PAYMENT ORDER. (1)

8 Subject to subsection (4) of this section, a receiving bank other than
9 the beneficiary's bank accepts a payment order when it executes the
10 order.

11 (2) Subject to subsections (3) and (4) of this section, a
12 beneficiary's bank accepts a payment order at the earliest of the
13 following times:

14 (a) When the bank (i) pays the beneficiary as stated in section
15 4A-405(1) or (2) of this act or (ii) notifies the beneficiary of
16 receipt of the order or that the account of the beneficiary has been
17 credited with respect to the order unless the notice indicates that the
18 bank is rejecting the order or that funds with respect to the order may
19 not be withdrawn or used until receipt of payment from the sender of
20 the order;

21 (b) When the bank receives payment of the entire amount of the
22 sender's order pursuant to section 4A-403(1)(a) or (b) of this act; or

23 (c) The opening of the next funds-transfer business day of the bank
24 following the payment date of the order if, at that time, the amount of
25 the sender's order is fully covered by a withdrawable credit balance in
26 an authorized account of the sender or the bank has otherwise received
27 full payment from the sender, unless the order was rejected before that
28 time or is rejected within (i) one hour after that time, or (ii) one
29 hour after the opening of the next business day of the sender following

1 the payment date if that time is later. If notice of rejection is
2 received by the sender after the payment date and the authorized
3 account of the sender does not bear interest, the bank is obliged to
4 pay interest to the sender on the amount of the order for the number of
5 days elapsing after the payment date to the day the sender receives
6 notice or learns that the order was not accepted, counting that day as
7 an elapsed day. If the withdrawable credit balance during that period
8 falls below the amount of the order, the amount of interest payable is
9 reduced accordingly.

10 (3) Acceptance of a payment order cannot occur before the order is
11 received by the receiving bank. Acceptance does not occur under
12 subsection (2)(b) or (c) of this section if the beneficiary of the
13 payment order does not have an account with the receiving bank, the
14 account has been closed, or the receiving bank is not permitted by law
15 to receive credits for the beneficiary's account.

16 (4) A payment order issued to the originator's bank cannot be
17 accepted until the payment date if the bank is the beneficiary's bank,
18 or the execution date if the bank is not the beneficiary's bank. If
19 the originator's bank executes the originator's payment order before
20 the execution date or pays the beneficiary of the originator's payment
21 order before the payment date and the payment order is subsequently
22 canceled pursuant to section 4A-211(2) of this act, the bank may
23 recover from the beneficiary any payment received to the extent allowed
24 by the law governing mistake and restitution.

25 NEW SECTION. **Sec. 4A-210.** REJECTION OF PAYMENT ORDER. (1) A
26 payment order is rejected by the receiving bank by a notice of
27 rejection transmitted to the sender orally, electronically, or in
28 writing. A notice of rejection need not use any particular words and
29 is sufficient if it indicates that the receiving bank is rejecting the

1 order or will not execute or pay the order. Rejection is effective
2 when the notice is given if transmission is by a means that is
3 reasonable in the circumstances. If notice of rejection is given by a
4 means that is not reasonable, rejection is effective when the notice is
5 received. If an agreement of the sender and receiving bank establishes
6 the means to be used to reject a payment order, (a) any means complying
7 with the agreement is reasonable and (b) any means not complying is not
8 reasonable unless no significant delay in receipt of the notice
9 resulted from the use of the noncomplying means.

10 (2) This subsection applies if a receiving bank other than the
11 beneficiary's bank fails to execute a payment order despite the
12 existence on the execution date of a withdrawable credit balance in an
13 authorized account of the sender sufficient to cover the order. If the
14 sender does not receive notice of rejection of the order on the
15 execution date and the authorized account of the sender does not bear
16 interest, the bank is obliged to pay interest to the sender on the
17 amount of the order for the number of days elapsing after the execution
18 date to the earlier of the day the order is canceled pursuant to
19 section 4A-211(4) of this act or the day the sender receives notice or
20 learns that the order was not executed, counting the final day of the
21 period as an elapsed day. If the withdrawable credit balance during
22 that period falls below the amount of the order, the amount of interest
23 is reduced accordingly.

24 (3) If a receiving bank suspends payments, all unaccepted payment
25 orders issued to it are deemed rejected at the time the bank suspends
26 payments.

27 (4) Acceptance of a payment order precludes a later rejection of
28 the order. Rejection of a payment order precludes a later acceptance
29 of the order.

1 NEW SECTION. **Sec. 4A-211.** CANCELLATION AND AMENDMENT OF PAYMENT

2 ORDER. (1) A communication of the sender of a payment order canceling
3 or amending the order may be transmitted to the receiving bank orally,
4 electronically, or in writing. If a security procedure is in effect
5 between the sender and the receiving bank, the communication is not
6 effective to cancel or amend the order unless the communication is
7 verified pursuant to the security procedure or the bank agrees to the
8 cancellation or amendment.

9 (2) Subject to subsection (1) of this section, a communication by
10 the sender canceling or amending a payment order is effective to cancel
11 or amend the order if notice of the communication is received at a time
12 and in a manner affording the receiving bank a reasonable opportunity
13 to act on the communication before the bank accepts the payment order.

14 (3) After a payment order has been accepted, cancellation or
15 amendment of the order is not effective unless the receiving bank
16 agrees or a funds-transfer system rule allows cancellation or amendment
17 without agreement of the bank.

18 (a) With respect to a payment order accepted by a receiving bank
19 other than the beneficiary's bank, cancellation or amendment is not
20 effective unless a conforming cancellation or amendment of the payment
21 order issued by the receiving bank is also made.

22 (b) With respect to a payment order accepted by the beneficiary's
23 bank, cancellation or amendment is not effective unless the order was
24 issued in execution of an unauthorized payment order, or because of a
25 mistake by a sender in the funds transfer which resulted in the
26 issuance of a payment order (i) that is a duplicate of a payment order
27 previously issued by the sender, (ii) that orders payment to a
28 beneficiary not entitled to receive payment from the originator, or
29 (iii) that orders payment in an amount greater than the amount the
30 beneficiary was entitled to receive from the originator. If the

1 payment order is canceled or amended, the beneficiary's bank is
2 entitled to recover from the beneficiary any amount paid to the
3 beneficiary to the extent allowed by the law governing mistake and
4 restitution.

5 (4) An unaccepted payment order is canceled by operation of law at
6 the close of the fifth funds-transfer business day of the receiving
7 bank after the execution date or payment date of the order.

8 (5) A canceled payment order cannot be accepted. If an accepted
9 payment order is canceled, the acceptance is nullified and no person
10 has any right or obligation based on the acceptance. Amendment of a
11 payment order is deemed to be cancellation of the original order at the
12 time of amendment and issue of a new payment order in the amended form
13 at the same time.

14 (6) Unless otherwise provided in an agreement of the parties or in
15 a funds-transfer system rule, if the receiving bank, after accepting a
16 payment order, agrees to cancellation or amendment of the order by the
17 sender or is bound by a funds-transfer system rule allowing
18 cancellation or amendment without the bank's agreement, the sender,
19 whether or not cancellation or amendment is effective, is liable to the
20 bank for any loss and expenses, including reasonable attorneys' fees,
21 incurred by the bank as a result of the cancellation or amendment or
22 attempted cancellation or amendment.

23 (7) A payment order is not revoked by the death or legal incapacity
24 of the sender unless the receiving bank knows of the death or of an
25 adjudication of incapacity by a court of competent jurisdiction and has
26 reasonable opportunity to act before acceptance of the order.

27 (8) A funds-transfer system rule is not effective to the extent it
28 conflicts with subsection (3)(b) of this section.

1 the payment date or an earlier date on which execution is reasonably
2 necessary to allow payment to the beneficiary on the payment date.

3 NEW SECTION. **Sec. 4A-302.** OBLIGATIONS OF RECEIVING BANK IN
4 EXECUTION OF PAYMENT ORDER. (1) Except as provided in subsections (2)
5 through (4) of this section, if the receiving bank accepts a payment
6 order pursuant to section 4A-209(1) of this act, the bank has the
7 following obligations in executing the order.

8 (a) The receiving bank is obliged to issue, on the execution date,
9 a payment order complying with the sender's order and to follow the
10 sender's instructions concerning (i) any intermediary bank or funds-
11 transfer system to be used in carrying out the funds transfer, or (ii)
12 the means by which payment orders are to be transmitted in the funds
13 transfer. If the originator's bank issues a payment order to an
14 intermediary bank, the originator's bank is obliged to instruct the
15 intermediary bank according to the instruction of the originator. An
16 intermediary bank in the funds transfer is similarly bound by an
17 instruction given to it by the sender of the payment order it accepts.

18 (b) If the sender's instruction states that the funds transfer is
19 to be carried out telephonically or by wire transfer or otherwise
20 indicates that the funds transfer is to be carried out by the most
21 expeditious means, the receiving bank is obliged to transmit its
22 payment order by the most expeditious available means, and to instruct
23 any intermediary bank accordingly. If a sender's instruction states a
24 payment date, the receiving bank is obliged to transmit its payment
25 order at a time and by means reasonably necessary to allow payment to
26 the beneficiary on the payment date or as soon thereafter as is
27 feasible.

28 (2) Unless otherwise instructed, a receiving bank executing a
29 payment order may (a) use any funds-transfer system if use of that

1 system is reasonable in the circumstances, and (b) issue a payment
2 order to the beneficiary's bank or to an intermediary bank through
3 which a payment order conforming to the sender's order can
4 expeditiously be issued to the beneficiary's bank if the receiving bank
5 exercises ordinary care in the selection of the intermediary bank. A
6 receiving bank is not required to follow an instruction of the sender
7 designating a funds-transfer system to be used in carrying out the
8 funds transfer if the receiving bank, in good faith, determines that it
9 is not feasible to follow the instruction or that following the
10 instruction would unduly delay completion of the funds transfer.

11 (3) Unless subsection (1)(b) of this section applies or the
12 receiving bank is otherwise instructed, the bank may execute a payment
13 order by transmitting its payment order by first class mail or by any
14 means reasonable in the circumstances. If the receiving bank is
15 instructed to execute the sender's order by transmitting its payment
16 order by a particular means, the receiving bank may issue its payment
17 order by the means stated or by any means as expeditious as the means
18 stated.

19 (4) Unless instructed by the sender, (a) the receiving bank may not
20 obtain payment of its charges for services and expenses in connection
21 with the execution of the sender's order by issuing a payment order in
22 an amount equal to the amount of the sender's order less the amount of
23 the charges, and (b) may not instruct a subsequent receiving bank to
24 obtain payment of its charges in the same manner.

25 NEW SECTION. **Sec. 4A-303.** ERRONEOUS EXECUTION OF PAYMENT ORDER.

26 (1) A receiving bank that (a) executes the payment order of the sender
27 by issuing a payment order in an amount greater than the amount of the
28 sender's order, or (b) issues a payment order in execution of the
29 sender's order and then issues a duplicate order, is entitled to

1 payment of the amount of the sender's order under section 4A-402(3) of
2 this act if that subsection is otherwise satisfied. The bank is
3 entitled to recover from the beneficiary of the erroneous order the
4 excess payment received to the extent allowed by the law governing
5 mistake and restitution.

6 (2) A receiving bank that executes the payment order of the sender
7 by issuing a payment order in an amount less than the amount of the
8 sender's order is entitled to payment of the amount of the sender's
9 order under section 4A-402(3) of this act if (a) that subsection is
10 otherwise satisfied and (b) the bank corrects its mistake by issuing an
11 additional payment order for the benefit of the beneficiary of the
12 sender's order. If the error is not corrected, the issuer of the
13 erroneous order is entitled to receive or retain payment from the
14 sender of the order it accepted only to the extent of the amount of the
15 erroneous order. This subsection does not apply if the receiving bank
16 executes the sender's payment order by issuing a payment order in an
17 amount less than the amount of the sender's order for the purpose of
18 obtaining payment of its charges for services and expenses pursuant to
19 instruction of the sender.

20 (3) If a receiving bank executes the payment order of the sender by
21 issuing a payment order to a beneficiary different from the beneficiary
22 of the sender's order and the funds transfer is completed on the basis
23 of that error, the sender of the payment order that was erroneously
24 executed and all previous senders in the funds transfer are not obliged
25 to pay the payment orders they issued. The issuer of the erroneous
26 order is entitled to recover from the beneficiary of the order the
27 payment received to the extent allowed by the law governing mistake and
28 restitution.

1 NEW SECTION. **Sec. 4A-304.** DUTY OF SENDER TO REPORT ERRONEOUSLY
2 EXECUTED PAYMENT ORDER. If the sender of a payment order that is
3 erroneously executed as stated in section 4A-303 of this act receives
4 notification from the receiving bank that the order was executed or
5 that the sender's account was debited with respect to the order, the
6 sender has a duty to exercise ordinary care to determine, on the basis
7 of information available to the sender, that the order was erroneously
8 executed and to notify the bank of the relevant facts within a
9 reasonable time not exceeding ninety days after the notification from
10 the bank was received by the sender. If the sender fails to perform
11 that duty, the bank is not obliged to pay interest on any amount
12 refundable to the sender under section 4A-402(4) of this act for the
13 period before the bank learns of the execution error. The bank is not
14 entitled to any recovery from the sender on account of a failure by the
15 sender to perform the duty stated in this section.

16 NEW SECTION. **Sec. 4A-305.** LIABILITY FOR LATE OR IMPROPER
17 EXECUTION OR FAILURE TO EXECUTE PAYMENT ORDER. (1) If a funds transfer
18 is completed but execution of a payment order by the receiving bank in
19 breach of section 4A-302 of this act results in delay in payment to the
20 beneficiary, the bank is obliged to pay interest to either the
21 originator or the beneficiary of the funds transfer for the period of
22 delay caused by the improper execution. Except as provided in
23 subsection (3) of this section, additional damages are not recoverable.

24 (2) If execution of a payment order by a receiving bank in breach
25 of section 4A-302 of this act results in (a) noncompletion of the funds
26 transfer, (b) failure to use an intermediary bank designated by the
27 originator, or (c) issuance of a payment order that does not comply
28 with the terms of the payment order of the originator, the bank is
29 liable to the originator for its expenses in the funds transfer and for

1 incidental expenses and interest losses, to the extent not covered by
2 subsection (1) of this section, resulting from the improper execution.
3 Except as provided in subsection (3) of this section, additional
4 damages are not recoverable.

5 (3) In addition to the amounts payable under subsections (1) and
6 (2) of this section, damages, including consequential damages, are
7 recoverable to the extent provided in an express written agreement of
8 the receiving bank.

9 (4) If a receiving bank fails to execute a payment order it was
10 obliged by express agreement to execute, the receiving bank is liable
11 to the sender for its expenses in the transaction and for incidental
12 expenses and interest losses resulting from the failure to execute.
13 Additional damages, including consequential damages, are recoverable to
14 the extent provided in an express written agreement of the receiving
15 bank, but are not otherwise recoverable.

16 (5) Reasonable attorneys' fees are recoverable if demand for
17 compensation under subsection (1) or (2) of this section is made and
18 refused before an action is brought on the claim. If a claim is made
19 for breach of an agreement under subsection (4) of this section and the
20 agreement does not provide for damages, reasonable attorneys' fees are
21 recoverable if demand for compensation under subsection (4) of this
22 section is made and refused before an action is brought on the claim.

23 (6) Except as stated in this section, the liability of a receiving
24 bank under subsections (1) and (2) of this section may not be varied by
25 agreement.

26 PART 4

27 PAYMENT

1 NEW SECTION. **Sec. 4A-401.** PAYMENT DATE. "Payment date" of a
2 payment order means the day on which the amount of the order is payable
3 to the beneficiary by the beneficiary's bank. The payment date may be
4 determined by instruction of the sender but cannot be earlier than the
5 day the order is received by the beneficiary's bank and, unless
6 otherwise determined, is the day the order is received by the
7 beneficiary's bank.

8 NEW SECTION. **Sec. 4A-402.** OBLIGATION OF SENDER TO PAY RECEIVING
9 BANK. (1) This section is subject to sections 4A-205 and 4A-207 of
10 this act.

11 (2) With respect to a payment order issued to the beneficiary's
12 bank, acceptance of the order by the bank obliges the sender to pay the
13 bank the amount of the order, but payment is not due until the payment
14 date of the order.

15 (3) This subsection is subject to subsection (5) of this section
16 and to section 4A-303 of this act. With respect to a payment order
17 issued to a receiving bank other than the beneficiary's bank,
18 acceptance of the order by the receiving bank obliges the sender to pay
19 the bank the amount of the sender's order. Payment by the sender is
20 not due until the execution date of the sender's order. The obligation
21 of that sender to pay its payment order is excused if the funds
22 transfer is not completed by acceptance by the beneficiary's bank of a
23 payment order instructing payment to the beneficiary of that sender's
24 payment order.

25 (4) If the sender of a payment order pays the order and was not
26 obliged to pay all or part of the amount paid, the bank receiving
27 payment is obliged to refund payment to the extent the sender was not
28 obliged to pay. Except as provided in sections 4A-204 and 4A-304 of

1 this act, interest is payable on the refundable amount from the date of
2 payment.

3 (5) If a funds transfer is not completed as stated in this
4 subsection and an intermediary bank is obliged to refund payment as
5 stated in subsection (4) of this section but is unable to do so because
6 not permitted by applicable law or because the bank suspends payments,
7 a sender in the funds transfer that executed a payment order in
8 compliance with an instruction, as stated in section 4A-302(1)(a) of
9 this section, to route the funds transfer through that intermediary
10 bank is entitled to receive or retain payment from the sender of the
11 payment order that it accepted. The first sender in the funds transfer
12 that issued an instruction requiring routing through that intermediary
13 bank is subrogated to the right of the bank that paid the intermediary
14 bank to refund as stated in subsection (4) of this section.

15 (6) The right of the sender of a payment order to be excused from
16 the obligation to pay the order as stated in subsection (3) of this
17 section or to receive refund under subsection (4) of this section may
18 not be varied by agreement.

19 NEW SECTION. **Sec. 4A-403.** PAYMENT BY SENDER TO RECEIVING BANK.

20 (1) Payment of the sender's obligation under section 4A-402 of this act
21 to pay the receiving bank occurs as follows:

22 (a) If the sender is a bank, payment occurs when the receiving bank
23 receives final settlement of the obligation through a federal reserve
24 bank or through a funds-transfer system.

25 (b) If the sender is a bank and the sender (i) credited an account
26 of the receiving bank with the sender, or (ii) caused an account of the
27 receiving bank in another bank to be credited, payment occurs when the
28 credit is withdrawn or, if not withdrawn, at midnight of the day on

1 which the credit is withdrawable and the receiving bank learns of that
2 fact.

3 (c) If the receiving bank debits an account of the sender with the
4 receiving bank, payment occurs when the debit is made to the extent the
5 debit is covered by a withdrawable credit balance in the account.

6 (2) If the sender and receiving bank are members of a funds-
7 transfer system that nets obligations multilaterally among
8 participants, the receiving bank receives final settlement when
9 settlement is complete in accordance with the rules of the system. The
10 obligation of the sender to pay the amount of a payment order
11 transmitted through the funds-transfer system may be satisfied, to the
12 extent permitted by the rules of the system, by setting off and
13 applying against the sender's obligation the right of the sender to
14 receive payment from the receiving bank of the amount of any other
15 payment order transmitted to the sender by the receiving bank through
16 the funds-transfer system. The aggregate balance of obligations owed
17 by each sender to each receiving bank in the funds-transfer system may
18 be satisfied, to the extent permitted by the rules of the system, by
19 setting off and applying against that balance the aggregate balance of
20 obligations owed to the sender by other members of the system. The
21 aggregate balance is determined after the right of setoff stated in the
22 second sentence of this subsection has been exercised.

23 (3) If two banks transmit payment orders to each other under an
24 agreement that settlement of the obligations of each bank to the other
25 under section 4A-402 of this act will be made at the end of the day or
26 other period, the total amount owed with respect to all orders
27 transmitted by one bank shall be set off against the total amount owed
28 with respect to all orders transmitted by the other bank. To the
29 extent of the setoff, each bank has made payment to the other.

1 (4) In a case not covered by subsection (1) of this section, the
2 time when payment of the sender's obligation under section 4A-402 (2)
3 or (3) of this act occurs is governed by applicable principles of law
4 that determine when an obligation is satisfied.

5 NEW SECTION. **Sec. 4A-404.** OBLIGATION OF BENEFICIARY'S BANK TO PAY
6 AND GIVE NOTICE TO BENEFICIARY. (1) Subject to sections 4A-211(5),
7 4A-405(4), and 4A-405(5) of this act, if a beneficiary's bank accepts
8 a payment order, the bank is obliged to pay the amount of the order to
9 the beneficiary of the order. Payment is due on the payment date of
10 the order, but if acceptance occurs on the payment date after the close
11 of the funds-transfer business day of the bank, payment is due on the
12 next funds-transfer business day. If the bank refuses to pay after
13 demand by the beneficiary and receipt of notice of particular
14 circumstances that will give rise to consequential damages as a result
15 of nonpayment, the beneficiary may recover damages resulting from the
16 refusal to pay to the extent the bank had notice of the damages, unless
17 the bank proves that it did not pay because of a reasonable doubt
18 concerning the right of the beneficiary to payment.

19 (2) If a payment order accepted by the beneficiary's bank instructs
20 payment to an account of the beneficiary, the bank is obliged to notify
21 the beneficiary of receipt of the order before midnight of the next
22 funds-transfer business day following the payment date. If the payment
23 order does not instruct payment to an account of the beneficiary, the
24 bank is required to notify the beneficiary only if notice is required
25 by the order. Notice may be given by first class mail or any other
26 means reasonable in the circumstances. If the bank fails to give the
27 required notice, the bank is obliged to pay interest to the beneficiary
28 on the amount of the payment order from the day notice should have been
29 given until the day the beneficiary learned of receipt of the payment

1 order by the bank. No other damages are recoverable. Reasonable
2 attorneys' fees are also recoverable if demand for interest is made and
3 refused before an action is brought on the claim.

4 (3) The right of a beneficiary to receive payment and damages as
5 stated in subsection (a) may not be varied by agreement or a funds-
6 transfer system rule. The right of a beneficiary to be notified as
7 stated in subsection (2) of this section may be varied by agreement of
8 the beneficiary or by a funds-transfer system rule if the beneficiary
9 is notified of the rule before initiation of the funds transfer.

10 NEW SECTION. **Sec. 4A-405.** PAYMENT BY BENEFICIARY'S BANK TO
11 BENEFICIARY. (1) If the beneficiary's bank credits an account of the
12 beneficiary of a payment order payment of the bank's obligation under
13 section 4A-404(1) of this act occurs when and to the extent (a) the
14 beneficiary is notified of the right to withdraw the credit, (b) the
15 bank lawfully applies the credit to a debt of the beneficiary, or (c)
16 funds with respect to the order are otherwise made available to the
17 beneficiary by the bank.

18 (2) If the beneficiary's bank does not credit an account of the
19 beneficiary of a payment order, the time when payment of the bank's
20 obligation under section 4A-404(1) of this act occurs is governed by
21 principles of law that determine when an obligation is satisfied.

22 (3) Except as stated in subsections (4) and (5) of this act, if the
23 beneficiary's bank pays the beneficiary of a payment order under a
24 condition to payment or agreement of the beneficiary giving the bank
25 the right to recover payment from the beneficiary if the bank does not
26 receive payment of the order, the condition to payment or agreement is
27 not enforceable.

28 (4) A funds-transfer system rule may provide that payments made to
29 beneficiaries of funds transfers made through the system are

1 provisional until receipt of payment by the beneficiary's bank of the
2 payment order it accepted. A beneficiary's bank that makes a payment
3 that is provisional under the rule is entitled to refund from the
4 beneficiary if (a) the rule requires that both the beneficiary and the
5 originator be given notice of the provisional nature of the payment
6 before the funds transfer is initiated, (b) the beneficiary, the
7 beneficiary's bank and the originator's bank agreed to be bound by the
8 rule, and (c) the beneficiary's bank did not receive payment of the
9 payment order that it accepted. If the beneficiary is obliged to
10 refund payment to the beneficiary's bank, acceptance of the payment
11 order by the beneficiary's bank is nullified and no payment by the
12 originator of the funds transfer to the beneficiary occurs under
13 section 4A-406 of this act.

14 (5) This subsection applies to a funds transfer that includes a
15 payment order transmitted over a funds-transfer system that (a) nets
16 obligations multilaterally among participants, and (b) has in effect a
17 loss-sharing agreement among participants for the purpose of providing
18 funds necessary to complete settlement of the obligations of one or
19 more participants that do not meet their settlement obligations. If
20 the beneficiary's bank in the funds transfer accepts a payment order
21 and the system fails to complete settlement pursuant to its rules with
22 respect to any payment order in the funds transfer, (i) the acceptance
23 by the beneficiary's bank is nullified and no person has any right or
24 obligation based on the acceptance, (ii) the beneficiary's bank is
25 entitled to recover payment from the beneficiary, (iii) no payment by
26 the originator to the beneficiary occurs under section 4A-406 of this
27 act, and (iv) subject to section 4A-402(5), each sender in the funds
28 transfer is excused from its obligation to pay its payment order under
29 section 4A-402(5), each sender in the funds transfer is excused from

1 its obligation to pay its payment order under section 4A-402(3) of this
2 act because the funds transfer has not been completed.

3 NEW SECTION. **Sec. 4A-406.** PAYMENT BY ORIGINATOR TO BENEFICIARY;
4 DISCHARGE OF UNDERLYING OBLIGATION. (1) Subject to sections 4A-211(5),
5 4A-405(4), and 4A-405(5) of this act, the originator of a funds
6 transfer pays the beneficiary of the originator's payment order (a) at
7 the time a payment order for the benefit of the beneficiary is accepted
8 by the beneficiary's bank in the funds transfer and (b) in an amount
9 equal to the amount of the order accepted by the beneficiary's bank,
10 but not more than the amount of the originator's order.

11 (2) If payment under subsection (1) of this section is made to
12 satisfy an obligation, the obligation is discharged to the same extent
13 discharge would result from payment to the beneficiary of the same
14 amount in money, unless (a) the payment under subsection (1) of this
15 section was made by a means prohibited by the contract of the
16 beneficiary with respect to the obligation, (b) the beneficiary, within
17 a reasonable time after receiving notice of receipt of the order by the
18 beneficiary's bank, notified the originator of the beneficiary's
19 refusal of the payment, (c) funds with respect to the order were not
20 withdrawn by the beneficiary or applied to a debt of the beneficiary,
21 and (d) the beneficiary would suffer a loss that could reasonably have
22 been avoided if payment had been made by a means complying with the
23 contract. If payment by the originator does not result in discharge
24 under this section, the originator is subrogated to the rights of the
25 beneficiary to receive payment from the beneficiary's bank under
26 section 4A-404(1) of this act.

27 (3) For the purpose of determining whether discharge of an
28 obligation occurs under subsection (2) of this section, if the
29 beneficiary's bank accepts a payment order in an amount equal to the

1 amount of the originator's payment order less charges of one or more
2 receiving banks in the funds transfer, payment to the beneficiary is
3 deemed to be in the amount of the originator's order unless upon demand
4 by the beneficiary the originator does not pay the beneficiary the
5 amount of the deducted charges.

6 (4) Rights of the originator or of the beneficiary of a funds
7 transfer under this section may be varied only by agreement of the
8 originator and the beneficiary.

9 PART 5

10 MISCELLANEOUS PROVISIONS

11 NEW SECTION. **Sec. 4A-501.** VARIATION BY AGREEMENT AND EFFECT OF
12 FUNDS-TRANSFER SYSTEM RULE. (1) Except as otherwise provided in this
13 Article, the rights and obligations of a party to a funds transfer may
14 be varied by agreement of the affected party.

15 (2) "Funds-transfer system rule" means a rule of an association of
16 banks (a) governing transmission of payment orders by means of a funds-
17 transfer system of the association or rights and obligations with
18 respect to those orders, or (b) to the extent the rule governs rights
19 and obligations between banks that are parties to a funds transfer in
20 which a federal reserve bank, acting as an intermediary bank, sends a
21 payment order to the beneficiary's bank. Except as otherwise provided
22 in this Article, a funds-transfer system rule governing rights and
23 obligations between participating banks using the system may be
24 effective even if the rule conflicts with the Article and indirectly
25 affects another party to the funds transfer who does not consent to the
26 rule. A funds-transfer system rule may also govern rights and
27 obligations of parties other than participating banks using the system

1 to the extent stated in sections 4A-404(3), 4A-405(4), and 4A-507(3) of
2 this act.

3 NEW SECTION. **Sec. 4A-502.** CREDITOR PROCESS SERVED ON RECEIVING
4 BANK; SETOFF BY BENEFICIARY'S BANK. (1) As used in this section,
5 "creditor process" means levy, attachment, garnishment, notice of lien,
6 sequestration, or similar process issued by or on behalf of a creditor
7 or other claimant with respect to an account.

8 (2) This subsection applies to creditor process with respect to an
9 authorized account of the sender of a payment order if the creditor
10 process is served on the receiving bank. For the purpose of
11 determining rights with respect to the creditor process, if the
12 receiving bank accepts the payment order the balance in the authorized
13 account is deemed to be reduced by the amount of the payment order to
14 the extent the bank did not otherwise receive payment of the order,
15 unless the creditor process is served at the time and in a manner
16 affording the bank a reasonable opportunity to act on it before the
17 bank accepts the payment order.

18 (3) If a beneficiary's bank has received a payment order for
19 payment to the beneficiary's account in the bank, the following rules
20 apply:

21 (a) The bank may credit the beneficiary's account. The amount
22 credited may be set off against an obligation owed by the beneficiary
23 to the bank or may be applied to satisfy creditor process served on the
24 bank with respect to the account.

25 (b) The bank may credit the beneficiary's account and allow
26 withdrawal of the amount credited unless creditor process with respect
27 to the account is served at the time and in a manner affording the bank
28 a reasonable opportunity to act to prevent withdrawal.

1 (c) If creditor process with respect to the beneficiary's account
2 has been served and the bank has had a reasonable opportunity to act on
3 it, the bank may not reject the payment order except for a reason
4 unrelated to the service of process.

5 (4) Creditor process with respect to a payment by the originator to
6 the beneficiary pursuant to a funds transfer may be served only on the
7 beneficiary's bank with respect to the debt owed by that bank to the
8 beneficiary. Any other bank served with the creditor process is not
9 obliged to act with respect to the process.

10 NEW SECTION. **Sec. 4A-503.** INJUNCTION OR RESTRAINING ORDER WITH
11 RESPECT TO FUNDS TRANSFER. For proper cause and in compliance with
12 applicable law, a court may restrain (1) a person from issuing a
13 payment order to initiate a funds transfer, (2) an originator's bank
14 from executing the payment order of the originator, or (3) the
15 beneficiary's bank from releasing funds to the beneficiary or the
16 beneficiary from withdrawing the funds. A court may not otherwise
17 restrain a person from issuing a payment order, paying or receiving
18 payment of a payment order, or otherwise acting with respect to a funds
19 transfer.

20 NEW SECTION. **Sec. 4A-504.** ORDER IN WHICH ITEMS AND PAYMENT ORDERS
21 MAY BE CHARGED TO ACCOUNT; ORDER OF WITHDRAWALS FROM ACCOUNT. (1) If
22 a receiving bank has received more than one payment order of the sender
23 or one or more payment orders and other items that are payable from the
24 sender's account, the bank may charge the sender's account with respect
25 to the various orders and items in any sequence.

26 (2) In determining whether a credit to an account has been
27 withdrawn by the holder of the account or applied to a debt of the

1 holder of the account, credits first made to the account are first
2 withdrawn or applied.

3 NEW SECTION. **Sec. 4A-505.** PRECLUSION OF OBJECTION TO DEBIT OF
4 CUSTOMER'S ACCOUNT. If a receiving bank has received payment from its
5 customer with respect to a payment order issued in the name of the
6 customer as sender and accepted by the bank, and the customer received
7 notification reasonably identifying the order, the customer is
8 precluded from asserting that the bank is not entitled to retain the
9 payment unless the customer notifies the bank of the customer's
10 objection to the payment within one year after the notification was
11 received by the customer.

12 NEW SECTION. **Sec. 4A-506.** RATE OF INTEREST. (1) If, under this
13 Article, a receiving bank is obliged to pay interest with respect to a
14 payment order issued to the bank, the amount payable may be determined
15 (a) by agreement of the sender and receiving bank, or (b) by a funds-
16 transfer system rule if the payment order is transmitted through a
17 funds-transfer system.

18 (2) If the amount of interest is not determined by an agreement or
19 rule as stated in subsection (1) of this section, the amount is
20 calculated by multiplying the applicable federal funds rate by the
21 amount on which interest is payable, and then multiplying the product
22 by the number of days for which interest is payable. The applicable
23 federal funds rate is the average of the federal funds rates published
24 by the federal reserve bank of New York for each of the days for which
25 interest is payable divided by three hundred sixty. The federal funds
26 rate for any day on which a published rate is not available is the same
27 as the published rate for the next preceding day for which there is a
28 published rate. If a receiving bank that accepted a payment order is

1 required to refund payment to the sender of the order because the funds
2 transfer was not completed, but the failure to complete was not due to
3 any fault by the bank, the interest payable is reduced by a percentage
4 equal to the reserve requirement on deposits of the receiving bank.

5 NEW SECTION. **Sec. 4A-507.** CHOICE OF LAW. (1) The following rules
6 apply unless the affected parties otherwise agree or subsection (3) of
7 this section applies;

8 (a) The rights and obligations between the sender of a payment
9 order and the receiving bank are governed by the law of the
10 jurisdiction in which the receiving bank is located.

11 (b) The rights and obligations between the beneficiary's bank and
12 the beneficiary are governed by the law of the jurisdiction in which
13 the beneficiary's bank is located.

14 (c) The issue of when payment is made pursuant to a funds transfer
15 by the originator to the beneficiary is governed by the law of the
16 jurisdiction in which the beneficiary's bank is located.

17 (2) If the parties described in each paragraph of subsection (1) of
18 this section have made an agreement selecting the law of a particular
19 jurisdiction to govern rights and obligations between each other, the
20 law of that jurisdiction governs those rights and obligations, whether
21 or not the payment order or the funds transfer bears a reasonable
22 relation to that jurisdiction.

23 (3) A funds-transfer system rule may select the law of a particular
24 jurisdiction to govern (a) rights and obligations between participating
25 banks with respect to payment orders transmitted or processed through
26 the system, or (b) the rights and obligations of some or all parties to
27 a funds transfer any part of which is carried out by means of the
28 system. A choice of law made pursuant to (a) of this subsection is
29 binding on participating banks. A choice of law made pursuant to (b)

1 of this subsection is binding on the originator, other sender, or a
2 receiving bank having notice that the funds-transfer system might be
3 used in the funds transfer and of the choice of law by the system when
4 the originator, other sender, or receiving bank issued or accepted a
5 payment order. The beneficiary of a funds transfer is bound by the
6 choice of law if, when the funds transfer is initiated, the beneficiary
7 has notice that the funds-transfer system might be used in the funds
8 transfer and of the choice of law by the system. The law of a
9 jurisdiction selected pursuant to this subsection may govern, whether
10 or not that law bears a reasonable relation to the matter in issue.

11 (4) In the event of inconsistency between an agreement under
12 subsection (2) of this section and a choice-of-law rule under
13 subsection (3) of this section, the agreement under subsection (2) of
14 this section prevails.

15 (5) If a funds transfer is made by use of more than one funds-
16 transfer system and there is inconsistency between choice-of-law rules
17 of the systems, the matter in issue is governed by the law of the
18 selected jurisdiction that has the most significant relationship to the
19 matter in issue.

20 NEW SECTION. **Sec. 4A-508.** Sections 4A-101 through 4A-507 of this
21 act shall constitute a new Article in Title 62A RCW.

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