

Gen. Assembly 3/11/92, 116 Pass 3/25

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Commerce

Dr. B... 3/11/92

HOUSE FILE 150

BY DODERER

Passed House, Date 3/11/92 (p. 534) Passed Senate, Date 4/3/92 (p. 1196)  
Vote: Ayes 95 Nays 0 Vote: Ayes 44 Nays 0  
Approved April 27, 1992 (p. 1834)

A BILL FOR

- 1 An Act relating to the transfer of funds by enacting the uniform
- 2 Act and providing civil remedies.
- 3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

HOUSE FILE 150

H-5198

- 1 Amend House File 150 as follows:
- 2 1. Page 3, by inserting after line 32 the
- 3 following:
- 4 ""Governing law"

554.12507".

By CHAPMAN of Linn

H-5198 FILED MARCH 5, 1992  
*adopted 3/11 (p. 534)*

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116 150

ARTICLE 12  
FUNDS TRANSFERS

PART 1

SUBJECT MATTER AND DEFINITIONS

Section 1. NEW SECTION. 554.12101 SHORT TITLE.

This article shall be known and may be cited as "Uniform Commercial Code -- Funds Transfers."

Sec. 2. NEW SECTION. 554.12102 SUBJECT MATTER.

Except as otherwise provided in section 554.12108, this article applies to funds transfers defined in section 554.12104.

Sec. 3. NEW SECTION. 554.12103 PAYMENT ORDER -- DEFINITIONS.

In this article unless the context otherwise requires:

1. a. "Payment order" means an instruction of a sender to a receiving bank, transmitted orally, electronically, or in writing, to pay, or to cause another bank to pay, a fixed or determinable amount of money to a beneficiary if all of the following apply:

(1) The instruction does not state a condition to payment to the beneficiary other than time of payment.

(2) The receiving bank is to be reimbursed by debiting an account of, or otherwise receiving payment from, the sender.

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

b. A payment order instructing more than one payment to be made to a beneficiary is a separate payment order with respect to each payment.

c. A payment order is issued when it is sent to the receiving bank.

2. "Beneficiary" means the person to be paid by the beneficiary's bank.

3. "Beneficiary's bank" means the bank identified in a payment order in which an account of the beneficiary is to be

1 credited pursuant to the order or which otherwise is to make  
2 payment to the beneficiary if the order does not provide for  
3 payment to an account.

4 4. "Receiving bank" means the bank to which the sender's  
5 instruction is addressed.

6 5. "Sender" means the person giving the instruction to the  
7 receiving bank.

8 Sec. 4. NEW SECTION. 554.12104 FUNDS TRANSFER -- DEFINI-  
9 TIONS.

10 In this article unless the context otherwise requires:

11 1. "Funds transfer" means the series of transactions, be-  
12 ginning with the originator's payment order, made for the pur-  
13 pose of making payment to the beneficiary of the order. The  
14 term includes any payment order issued by the originator's  
15 bank or an intermediary bank intended to carry out the  
16 originator's payment order. A funds transfer is completed by  
17 acceptance by the beneficiary's bank of a payment order for  
18 the benefit of the beneficiary of the originator's payment  
19 order.

20 2. "Intermediary bank" means a receiving bank other than  
21 the originator's bank or the beneficiary's bank.

22 3. "Originator" means the sender of the first payment  
23 order in a funds transfer.

24 4. "Originator's bank" means the receiving bank to which  
25 the payment order of the originator is issued if the  
26 originator is not a bank, or the originator if the originator  
27 is a bank.

28 Sec. 5. NEW SECTION. 554.12105 OTHER DEFINITIONS.

29 1. In this article unless the context otherwise requires:

30 a. "Authorized account" means a deposit account of a  
31 customer in a bank designated by the customer as a source of  
32 payment of payment orders issued by the customer to the bank.  
33 If a customer does not so designate an account, any account of  
34 the customer is an authorized account if payment of a payment  
35 order from that account is not inconsistent with a restriction

1 on the use of that account.

2 b. "Bank" means a person engaged in the business of  
3 banking and includes a savings bank, savings and loan  
4 association, credit union, and trust company. A branch or  
5 separate office of a bank is a separate bank for purposes of  
6 this article.

7 c. "Customer" means a person, including a bank, having an  
8 account with a bank or from whom a bank has agreed to receive  
9 payment orders.

10 d. "Funds-transfer business day" of a receiving bank means  
11 the part of a day during which the receiving bank is open for  
12 the receipt, processing, and transmittal of payment orders,  
13 and cancellations and amendments of payment orders.

14 e. "Funds-transfer system" means a wire transfer network,  
15 automated clearing house, or other communication system of a  
16 clearing house or other association of banks through which a  
17 payment order by a bank may be transmitted to the bank to  
18 which the order is addressed.

19 f. "Good faith" means honesty in fact and the observance  
20 of reasonable commercial standards of fair dealing.

21 g. "Prove" with respect to a fact means to meet the burden  
22 of establishing the fact as defined in section 554.1201,  
23 subsection 8.

24 2. Other definitions applying to this article and the  
25 sections in which they appear are:

26	"Acceptance"	554.12209
27	"Beneficiary"	554.12103
28	"Beneficiary's bank"	554.12103
29	"Executed"	554.12301
30	"Execution date"	554.12301
31	"Funds transfer"	554.12104
32	"Funds-transfer system rule"	554.12501
33	"Intermediary bank"	554.12104
34	"Originator"	554.12104
35	"Originator's bank"	554.12104

1	"Payment by beneficiary's bank to beneficiary"	554.12405
2	"Payment by originator to beneficiary"	554.12406
3	"Payment by sender to receiving bank"	554.12403
4	"Payment date"	554.12401
5	"Payment order"	554.12103
6	"Receiving bank"	554.12103
7	"Security procedure"	554.12201
8	"Sender"	554.12103

9 3. The following definitions in article 4 apply to this  
10 article:

11	"Clearing house"	554.4104
12	"Item"	554.4104
13	"Suspends payments"	554.4104

14 4. In addition, article 1 contains general definitions and  
15 principles of construction and interpretation applicable  
16 throughout this article.

17 Sec. 6. NEW SECTION. 554.12106 TIME PAYMENT ORDER IS  
18 RECEIVED.

19 1. The time of receipt of a payment order or communication  
20 canceling or amending a payment order is determined by the  
21 rules applicable to receipt of a notice stated in section  
22 554.1201, subsection 27. A receiving bank may establish a  
23 cut-off time or times on a funds-transfer business day for the  
24 receipt and processing of payment orders, and communications  
25 canceling or amending payment orders. Different cut-off times  
26 may apply to payment orders, cancellations, or amendments, or  
27 to different categories of payment orders, cancellations, or  
28 amendments. A cut-off time may apply to senders generally, or  
29 different cut-off times may apply to different senders or  
30 categories of payment orders. If a payment order or  
31 communication canceling or amending a payment order is  
32 received after the close of a funds-transfer business day or  
33 after the appropriate cut-off time on a funds-transfer  
34 business day, the receiving bank may treat the payment order  
35 or communication as received at the opening of the next funds-

1 transfer business day.

2 2. Unless otherwise provided, if this article refers to an  
3 execution date or payment date or states a day on which a  
4 receiving bank is required to take action, and the date or day  
5 does not fall on a funds-transfer business day, the next day  
6 that is a funds-transfer business day is treated as the date  
7 or day stated.

8 Sec. 7. NEW SECTION. 554.12107 FEDERAL RESERVE  
9 REGULATIONS AND OPERATING CIRCULARS.

10 Regulations of the board of governors of the federal  
11 reserve system and operating circulars of the federal reserve  
12 banks as of July 1, 1991, supersede any inconsistent provision  
13 of this article to the extent of the inconsistency.

14 Sec. 8. NEW SECTION. 554.12108 EXCLUSION OF CONSUMER  
15 TRANSACTIONS GOVERNED BY FEDERAL LAW.

16 This article does not apply to a funds transfer any part of  
17 which is governed by the Electronic Fund Transfer Act of 1978,  
18 15 U.S.C. § 1693 et seq.

19 PART 2

20 ISSUE AND ACCEPTANCE OF PAYMENT ORDER

21 Sec. 9. NEW SECTION. 554.12201 SECURITY PROCEDURE.

22 "Security procedure" means a procedure established by  
23 agreement between a customer and a receiving bank for the  
24 purpose of verifying that a payment order or communication  
25 amending or canceling a payment order is that of the customer,  
26 or detecting error in the transmission or the content of the  
27 payment order or communication. A security procedure may  
28 require the use of algorithms or other codes, identifying  
29 words or numbers, encryption, callback procedures, or similar  
30 security devices. Comparison of a signature on a payment  
31 order or communication with an authorized specimen signature  
32 of the customer is not by itself a security procedure.

33 Sec. 10. NEW SECTION. 554.12202 AUTHORIZED AND VERIFIED  
34 PAYMENT ORDERS.

35 1. A payment order received by the receiving bank is the

1 authorized order of the person identified as sender if that  
2 person authorized the order or is otherwise bound by it under  
3 the law of agency.

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

20 3. Commercial reasonableness of a security procedure is a  
21 question of law to be determined by considering the wishes of  
22 the customer expressed to the bank, the circumstances of the  
23 customer known to the bank, including the size, type, and  
24 frequency of payment orders normally issued by the customer to  
25 the bank, alternative security procedures offered to the  
26 customer, and security procedures in general use by customers  
27 and receiving banks similarly situated. A security procedure  
28 is deemed to be commercially reasonable if the security  
29 procedure was chosen by the customer after the bank offered,  
30 and the customer refused, a security procedure that was  
31 commercially reasonable for that customer, and the customer  
32 expressly agreed in writing to be bound by any payment order,  
33 whether or not authorized, issued in the customer's name and  
34 accepted by the bank in compliance with the security procedure  
35 chosen by the customer.

1 4. The term "sender" in this article includes the customer  
2 in whose name a payment order is issued if the order is the  
3 authorized order of the customer under subsection 1, or it is  
4 effective as the order of the customer under subsection 2.

5 5. This section applies to amendments and cancellations of  
6 payment orders in the same manner it applies to payment  
7 orders.

8 6. Except as provided in this section and section  
9 554.12203, rights and obligations arising under this section  
10 or section 554.12203 may not be varied by agreement.

11 Sec. 11. NEW SECTION. 554.12203 UNENFORCEABILITY OF  
12 CERTAIN VERIFIED PAYMENT ORDERS.

13 If an accepted payment order is not an authorized order of  
14 a customer identified as sender pursuant to section 554.12202,  
15 subsection 1, but is effective as an order of the customer  
16 pursuant to section 554.12202, subsection 2, the following  
17 rules apply:

18 1. By express written agreement, the receiving bank may  
19 limit the extent to which it is entitled to enforce or retain  
20 payment of the payment order.

21 2. The receiving bank is not entitled to enforce or retain  
22 payment of the payment order if the customer proves that the  
23 order was not caused, directly or indirectly, by a person  
24 entrusted at any time with the authority to act for the  
25 customer with respect to payment orders or the security  
26 procedure, or who obtained access to transmitting facilities  
27 of the customer or who obtained, from a source controlled by  
28 the customer and without authority of the receiving bank,  
29 information facilitating breach of the security procedure,  
30 regardless of how the information was obtained or whether the  
31 customer was at fault. Information includes any access  
32 device, computer software, or similar items.

33 3. This section applies to amendments of payment orders in  
34 the same manner it applies to payment orders.

35 Sec. 12. NEW SECTION. 554.12204 REFUND OF PAYMENT AND

1 DUTY OF CUSTOMER TO REPORT WITH RESPECT TO UNAUTHORIZED  
2 PAYMENT ORDER.

3 1. If a receiving bank accepts a payment order issued in  
4 the name of its customer as sender which is not authorized and  
5 not effective as the order of the customer under section  
6 554.12202, or which is not enforceable, in whole or in part,  
7 against the customer under section 554.12203, the bank shall  
8 refund any payment related to the payment order received from  
9 the customer to the extent the bank is not entitled to enforce  
10 payment and shall pay interest on the refundable amount  
11 calculated from the date the bank received payment to the date  
12 of the refund. However, the customer is not entitled to  
13 interest from the bank on the amount to be refunded if the  
14 customer fails to exercise ordinary care to determine that the  
15 order was not authorized by the customer and to notify the  
16 bank of the relevant facts within a reasonable time not  
17 exceeding ninety days after the date the customer received  
18 notification from the bank that the order was accepted or that  
19 the customer's account was debited with respect to the order.  
20 The bank is not entitled to any recovery from the customer as  
21 a result of a failure by the customer to give notification as  
22 stated in this section.

23 2. Reasonable time under subsection 1 may be fixed by  
24 agreement as provided in section 554.1204, subsection 1, but  
25 the obligation of a receiving bank to refund payment as stated  
26 in subsection 1 may not otherwise be varied by agreement.

27 Sec. 13. NEW SECTION. 554.12205 ERRONEOUS PAYMENT  
28 ORDERS.

29 1. If an accepted payment order was transmitted pursuant  
30 to a security procedure for the detection of error and the  
31 payment order (i) erroneously instructed payment to a  
32 beneficiary not intended by the sender, (ii) erroneously  
33 instructed payment in an amount greater than the amount  
34 intended by the sender, or (iii) was an erroneously  
35 transmitted duplicate of a payment order previously sent by

1 the sender, the following rules apply:

2 a. If the sender proves that the sender or a person acting  
3 on behalf of the sender pursuant to section 554.12206 complied  
4 with the security procedure and that the error would have been  
5 detected if the receiving bank had also complied, the sender  
6 is not obligated to pay the order to the extent stated in  
7 subsections 2 and 3.

8 b. If the funds transfer is completed on the basis of an  
9 erroneous payment order described in (i) or (iii) of  
10 subsection 1, the sender is not obligated to pay the order and  
11 the receiving bank is entitled to recover from the beneficiary  
12 any amount paid to the beneficiary to the extent allowed by  
13 the law governing mistake and restitution.

14 c. If the funds transfer is completed on the basis of a  
15 payment order described in (ii) of subsection 1, the sender is  
16 not obligated to pay the order to the extent the amount  
17 received by the beneficiary is greater than the amount  
18 intended by the sender. In that case, the receiving bank is  
19 entitled to recover from the beneficiary the excess amount  
20 received to the extent allowed by the law governing mistake  
21 and restitution.

22 2. If the sender of an erroneous payment order described  
23 in subsection 1 is not obligated to pay all or part of the  
24 order, and the sender receives notification from the receiving  
25 bank that the order was accepted by the bank or that the  
26 sender's account was debited with respect to the order, the  
27 sender has a duty to exercise ordinary care, on the basis of  
28 information available to the sender, to discover the error  
29 with respect to the order and to advise the bank of the  
30 relevant facts within a reasonable time, not exceeding ninety  
31 days, after the bank's notification was received by the  
32 sender. If the bank proves that the sender failed to perform  
33 this duty, the sender is liable to the bank for the loss the  
34 bank proves it incurred as a result of the failure, not to  
35 exceed the amount of the sender's order.

1 3. This section applies to amendments to payment orders in  
2 the same manner it applies to payment orders.

3 Sec. 14. NEW SECTION. 554.12206 TRANSMISSION OF PAYMENT  
4 ORDER THROUGH FUNDS-TRANSFER OR OTHER COMMUNICATION SYSTEM.

5 If a payment order addressed to a receiving bank is  
6 transmitted to a funds-transfer system or other third-party  
7 communication system for transmittal to the bank, the system  
8 is deemed to be an agent of the sender for the purpose of  
9 transmitting the payment order to the bank. If there is a  
10 discrepancy between the terms of the payment order transmitted  
11 to the system by the sender and the terms of the payment order  
12 transmitted by the system to the bank, the terms of the  
13 payment order of the sender are deemed to be those transmitted  
14 by the system. This section does not apply to a funds-  
15 transfer system of the federal reserve banks.

16 This section applies to cancellations and amendments of  
17 payment orders in the same manner it applies to payment  
18 orders.

19 Sec. 15. NEW SECTION. 554.12207 MISDESCRIPTION OF  
20 BENEFICIARY.

21 1. Subject to subsection 2, if, in a payment order  
22 received by the beneficiary's bank, the name, bank account  
23 number, or other identification of the beneficiary refers to a  
24 nonexistent or unidentifiable person or account, no person has  
25 rights as a beneficiary of the order and acceptance of the  
26 order cannot occur.

27 2. If a payment order received by the beneficiary's bank  
28 identifies the beneficiary both by name and by an identifying  
29 or bank account number and the name and number identify  
30 different persons, the following rules apply:

31 a. Except as otherwise provided in subsection 3, if the  
32 beneficiary's bank does not know that the name and number  
33 refer to different persons, it may rely on the number as the  
34 proper identification of the beneficiary of the order. The  
35 beneficiary's bank need not determine whether the name and

1 number refer to the same person.

2 b. If the beneficiary's bank pays the person identified by  
3 name or knows that the name and number identify different  
4 persons, no person has rights as beneficiary except the person  
5 paid by the beneficiary's bank if that person was entitled to  
6 receive payment from the originator of the funds transfer. If  
7 no person has rights as beneficiary, acceptance of the order  
8 cannot occur.

9 3. If a payment order described in subsection 2 is  
10 accepted, the originator's payment order described the  
11 beneficiary inconsistently by name and number, and the  
12 beneficiary's bank pays the person identified by number as  
13 permitted by subsection 2, paragraph "a", the following rules  
14 apply:

15 a. If the originator is a bank, the originator shall pay  
16 the originator's order.

17 b. If the originator is not a bank and proves that the  
18 person identified by number was not entitled to receive  
19 payment from the originator, the originator is not obligated  
20 to pay the originator's order unless the originator's bank  
21 proves that the originator had notice, before acceptance by  
22 the originator's bank of the originator's order, that payment  
23 of a payment order issued by the originator might be made by  
24 the beneficiary's bank on the basis of an identifying or bank  
25 account number even if it identifies a person different from  
26 the named beneficiary. Proof of notice may be made by any  
27 admissible evidence. The originator's bank satisfies the  
28 burden of proof if it proves that the originator signed a  
29 writing stating the information to which the notice relates  
30 before the payment order was accepted.

31 4. In a case governed by subsection 2, paragraph "a", if  
32 the beneficiary's bank rightfully pays the person identified  
33 by number and that person was not entitled to receive payment  
34 from the originator, the amount paid may be recovered from  
35 that person to the extent allowed by the law governing mistake

1 and restitution as follows:

2 a. If the originator is obligated to pay its payment order  
3 as stated in subsection 3, the originator has the right to  
4 recover.

5 b. If the originator is not a bank and is not obligated to  
6 pay its payment order, the originator's bank has the right to  
7 recover.

8 Sec. 16. NEW SECTION. 554.12208 MISDESCRIPTION OF  
9 INTERMEDIARY BANK OR BENEFICIARY'S BANK.

10 1. This subsection applies to a payment order identifying  
11 an intermediary bank or the beneficiary's bank only by an  
12 identifying number.

13 a. The receiving bank may rely on the number as the proper  
14 identification of the intermediary or beneficiary's bank and  
15 need not determine whether the number identifies a bank.

16 b. The sender shall compensate the receiving bank for any  
17 loss and expenses incurred by the receiving bank as a result  
18 of the receiving bank's reliance on the number in executing or  
19 attempting to execute the order.

20 2. This subsection applies to a payment order identifying  
21 an intermediary bank or the beneficiary's bank both by name  
22 and an identifying number if the name and number identify  
23 different persons.

24 a. If the sender is a bank, the receiving bank may rely on  
25 the number as the proper identification of the intermediary or  
26 beneficiary's bank if the receiving bank, when it executes the  
27 sender's order, does not know that the name and number  
28 identify different persons. The receiving bank need not  
29 determine whether the name and number refer to the same person  
30 or whether the number refers to a bank. The sender shall  
31 compensate the receiving bank for any loss and expenses  
32 incurred by the receiving bank as a result of the receiving  
33 bank's reliance on the number in executing or attempting to  
34 execute the order.

35 b. If the sender is not a bank and the receiving bank

1 proves that the sender, before the payment order was accepted,  
2 had notice that the receiving bank might rely on the number as  
3 the proper identification of the intermediary or beneficiary's  
4 bank even if it identifies a person different from the bank  
5 identified by name, the rights and obligations of the sender  
6 and the receiving bank are governed by paragraph "a", as  
7 though the sender were a bank. Proof of notice may be made by  
8 any admissible evidence. The receiving bank satisfies the  
9 burden of proof if it proves that the sender, before the  
10 payment order was accepted, signed a writing stating the  
11 information to which the notice relates.

12 c. Regardless of whether the sender is a bank, the  
13 receiving bank may rely on the name as the proper  
14 identification of the intermediary or beneficiary's bank if  
15 the receiving bank, at the time the receiving bank executes  
16 the sender's order, does not know that the name and number  
17 identify different persons. The receiving bank need not  
18 determine whether the name and number refer to the same  
19 person.

20 d. If the receiving bank knows that the name and number  
21 identify different persons, reliance on either the name or the  
22 number in executing the sender's payment order is a breach of  
23 the obligation stated in section 554.12302, subsection 1,  
24 paragraph "a".

25 Sec. 17. NEW SECTION. 554.12209 ACCEPTANCE OF PAYMENT  
26 ORDER.

27 1. Subject to subsection 4, a receiving bank other than  
28 the beneficiary's bank accepts a payment order when it  
29 executes the order.

30 2. Subject to subsections 3 and 4, a beneficiary's bank  
31 accepts a payment order at the earliest of the following  
32 times:

33 a. When the bank pays the beneficiary as stated in section  
34 554.12405, subsection 1 or 2, or notifies the beneficiary of  
35 receipt of the order or that the account of the beneficiary

1 has been credited with respect to the order, unless the notice  
2 indicates that the bank is rejecting the order or that funds  
3 with respect to the order may not be withdrawn or used until  
4 receipt of payment from the sender of the order;

5 b. When the bank receives payment of the entire amount of  
6 the sender's order pursuant to section 554.12403, subsection  
7 1, paragraph "a" or "b"; or

8 c. The opening of the next funds-transfer business day of  
9 the bank following the payment date of the order if, at that  
10 time, the amount of the sender's order is fully covered by a  
11 withdrawable credit balance in an authorized account of the  
12 sender or the bank has otherwise received full payment from  
13 the sender, unless the order was rejected before that time or  
14 is rejected within one hour after that time, or one hour after  
15 the opening of the next business day of the sender following  
16 the payment date if the time is later. If notice of rejection  
17 is received by the sender after the payment date and the  
18 authorized account of the sender does not bear interest, the  
19 bank shall pay interest to the sender on the amount of the  
20 order for the number of days elapsing after the payment date  
21 to the day the sender receives notice or learns that the order  
22 was not accepted, counting the day that notice is received as  
23 an elapsed day. If the withdrawable credit balance during  
24 that period falls below the amount of the order, the amount of  
25 interest payable is reduced accordingly.

26 3. Acceptance of a payment order cannot occur before the  
27 order is received by the receiving bank. Acceptance does not  
28 occur under subsection 2, paragraph "b" or "c", if the  
29 beneficiary of the payment order does not have an account with  
30 the receiving bank, the account has been closed, or the  
31 receiving bank is not permitted by law to receive credits for  
32 the beneficiary's account.

33 4. A payment order issued to the originator's bank cannot  
34 be accepted until the payment date if the bank is the  
35 beneficiary's bank, or the execution date if the bank is not

1 the beneficiary's bank. If the originator's bank executes the  
2 originator's payment order before the execution date or pays  
3 the beneficiary of the originator's payment order before the  
4 payment date and the payment order is subsequently canceled  
5 pursuant to section 554.12211, subsection 2, the bank may  
6 recover from the beneficiary any payment received to the  
7 extent allowed by the law governing mistake and restitution.

8     Sec. 18. NEW SECTION. 554.12210 REJECTION OF PAYMENT  
9 ORDER.

10     1. A payment order is rejected by the receiving bank by a  
11 notice of rejection transmitted to the sender orally,  
12 electronically, or in writing. A notice of rejection need not  
13 use any particular words and is sufficient if the notice  
14 indicates that the receiving bank is rejecting the order or  
15 will not execute or pay the order. Rejection is effective  
16 when the notice is given if transmission is by a means that is  
17 reasonable under the circumstances. If notice of rejection is  
18 given by a means that is not reasonable, rejection is  
19 effective when the notice is received. If an agreement of the  
20 sender and receiving bank establishes the means to be used to  
21 reject a payment order, any means complying with the agreement  
22 is reasonable and any means not complying is not reasonable  
23 unless no significant delay in receipt of the notice resulted  
24 from the use of the noncomplying means.

25     2. This subsection applies if a receiving bank other than  
26 the beneficiary's bank fails to execute a payment order  
27 despite the existence on the execution date of a withdrawable  
28 credit balance in an authorized account of the sender  
29 sufficient to cover the order. If the sender does not receive  
30 notice of rejection of the order on the execution date and the  
31 authorized account of the sender does not bear interest, the  
32 bank shall pay interest to the sender on the amount of the  
33 order for the number of days elapsing after the execution date  
34 to the earlier of the day the order is canceled pursuant to  
35 section 554.12211, subsection 4, or the day the sender

1 receives notice or learns that the order was not executed,  
2 counting the final day of the period as an elapsed day. If  
3 the withdrawable credit balance during that period falls below  
4 the amount of the order, the amount of interest is reduced  
5 accordingly.

6 3. If a receiving bank suspends payments, all unaccepted  
7 payment orders issued to the receiving bank are deemed  
8 rejected at the time the bank suspends payments.

9 4. Acceptance of a payment order precludes a later  
10 rejection of the order. Rejection of a payment order  
11 precludes a later acceptance of the order.

12 Sec. 19. NEW SECTION. 554.12211 CANCELLATION AND  
13 AMENDMENT OF PAYMENT ORDER.

14 1. A communication of the sender of a payment order  
15 canceling or amending the order may be transmitted to the  
16 receiving bank orally, electronically, or in writing. If a  
17 security procedure is in effect between the sender and the  
18 receiving bank, the communication is not effective to cancel  
19 or amend the order unless the communication is verified  
20 pursuant to the security procedure or the bank agrees to the  
21 cancellation or amendment.

22 2. Subject to subsection 1, a communication by the sender  
23 canceling or amending a payment order is effective to cancel  
24 or amend the order if notice of the communication is received  
25 at a time and in a manner affording the receiving bank a  
26 reasonable opportunity to act on the communication before the  
27 bank accepts the payment order.

28 3. After a payment order has been accepted, cancellation  
29 or amendment of the order is not effective unless the  
30 receiving bank agrees or a funds-transfer system rule allows  
31 cancellation or amendment without agreement of the bank.

32 a. With respect to a payment order accepted by a receiving  
33 bank other than the beneficiary's bank, cancellation or  
34 amendment is not effective unless a conforming cancellation or  
35 amendment of the payment order issued by the receiving bank is

1 also made.

2     3. With respect to a payment order accepted by the  
3 beneficiary's bank, cancellation or amendment is not effective  
4 unless the order was issued in execution of an unauthorized  
5 payment order, or because of a mistake by a sender in the  
6 funds transfer which resulted in the issuance of a payment  
7 order that is a duplicate of a payment order previously issued  
8 by the sender, that orders payment to a beneficiary not  
9 entitled to receive payment from the originator, or that  
10 orders payment in an amount greater than the amount the  
11 beneficiary was entitled to receive from the originator. If  
12 the payment order is canceled or amended, the beneficiary's  
13 bank is entitled to recover from the beneficiary any amount  
14 paid to the beneficiary to the extent allowed by the law  
15 governing mistake and restitution.

16     4. An unaccepted payment order is canceled by operation of  
17 law at the close of the fifth funds-transfer business day of  
18 the receiving bank after the execution date or payment date of  
19 the order.

20     5. A canceled payment order cannot be accepted. If an  
21 accepted payment order is canceled, the acceptance is  
22 nullified and no person has any right or obligation based on  
23 the acceptance. Amendment of a payment order is deemed to be  
24 cancellation of the original order at the time of amendment  
25 and issuance of a new payment order in the amended form at the  
26 same time.

27     6. Unless otherwise provided in an agreement of the  
28 parties or in a funds-transfer system rule, if the receiving  
29 bank, after accepting a payment order, agrees to cancellation  
30 or amendment of the order by the sender or is bound by a  
31 funds-transfer system rule allowing cancellation or amendmen  
32 without the bank's agreement, the sender, whether or not  
33 cancellation or amendment is effective, is liable to the bank  
34 for any loss and expenses, including reasonable attorney's  
35 fees, incurred by the bank as a result of the cancellation or

1 amendment or attempted cancellation or amendment.

2 7. A payment order is not revoked by the death or legal  
3 incapacity of the sender unless the receiving bank knows of  
4 the death or of an adjudication of incapacity by a court of  
5 competent jurisdiction and has reasonable opportunity to act  
6 before acceptance of the order.

7 8. A funds-transfer system rule is not effective to the  
8 extent it conflicts with subsection 3, paragraph "b".

9 Sec. 20. NEW SECTION. 554.12212 LIABILITY AND DUTY OF  
10 RECEIVING BANK REGARDING UNACCEPTED PAYMENT ORDER.

11 If a receiving bank fails to accept a payment order that it  
12 is obligated by express agreement to accept, the bank is  
13 liable for breach of the agreement to the extent provided in  
14 the agreement or in this article, but does not otherwise have  
15 any duty to accept a payment order or, before acceptance, to  
16 take any action, or refrain from taking action, with respect  
17 to the order except as provided in this article or by express  
18 agreement. Liability based on acceptance arises only when  
19 acceptance occurs as stated in section 554.12209, and  
20 liability is limited to that provided in this article. A  
21 receiving bank is not the agent of the sender or beneficiary  
22 of the payment order it accepts, or of any other party to the  
23 funds transfer, and the bank owes no duty to any party to the  
24 funds transfer except as provided in this article or by  
25 express agreement.

26

### PART 3

27 EXECUTION OF SENDER'S PAYMENT ORDER BY RECEIVING BANK

28 Sec. 21. NEW SECTION. 554.12301 EXECUTION AND EXECUTION  
29 DATE.

30 1. A payment order is executed by the receiving bank when  
31 the receiving bank issues a payment order intended to carry  
32 out the payment order received by the bank. A payment order  
33 received by the beneficiary's bank can be accepted but cannot  
34 be executed.

35 2. "Execution date" of a payment order means the day on

1 which the receiving bank may properly issue a payment order in  
2 execution of the sender's order. The execution date may be  
3 determined by instruction of the sender but cannot be earlier  
4 than the day the order is received and, unless otherwise  
5 determined, is the day the order is received. If the sender's  
6 instruction states a payment date, the execution date is the  
7 payment date or an earlier date on which execution is  
8 reasonably necessary to allow payment to the beneficiary on  
9 the payment date.

10 Sec. 22. NEW SECTION. 554.12302 OBLIGATIONS OF RECEIVING  
11 BANK IN EXECUTION OF PAYMENT ORDER.

12 1. Except as provided in subsections 2 through 4, if the  
13 receiving bank accepts a payment order pursuant to section  
14 554.12209, subsection 1, the bank has the following  
15 obligations in executing the order:

16 a. The receiving bank is obligated to issue, on the  
17 execution date, a payment order complying with the sender's  
18 order and to follow the sender's instructions concerning any  
19 intermediary bank or funds-transfer system to be used in  
20 carrying out the funds transfer, or the means by which payment  
21 orders are to be transmitted in the funds transfer. If the  
22 originator's bank issues a payment order to an intermediary  
23 bank, the originator's bank shall instruct the intermediary  
24 bank according to the instruction of the originator. An  
25 intermediary bank in the funds transfer is similarly bound by  
26 an instruction given to it by the sender of the payment order  
27 it accepts.

28 b. If the sender's instruction states that the funds  
29 transfer is to be carried out telephonically or by wire  
30 transfer or otherwise indicates that the funds transfer is to  
31 be carried out by the most expeditious means, the receiving  
32 bank is obligated to transmit its payment order by the most  
33 expeditious available means, and to instruct any intermediary  
34 bank accordingly. If a sender's instruction states a payment  
35 date, the receiving bank shall transmit the receiving bank's

1 payment order at a time and by means reasonably necessary to  
2 allow payment to the beneficiary on the payment date or as  
3 soon thereafter as is feasible.

4 2. Unless otherwise instructed, a receiving bank executing  
5 a payment order may use any funds-transfer system if use of  
6 that system is reasonable under the circumstances, and issue a  
7 payment order to the beneficiary's bank or to an intermediary  
8 bank through which a payment order conforming to the sender's  
9 order can expeditiously be issued to the beneficiary's bank if  
10 the receiving bank exercises ordinary care in the selection of  
11 the intermediary bank. A receiving bank is not required to  
12 follow an instruction of the sender designating a funds-  
13 transfer system to be used in carrying out the funds transfer  
14 if the receiving bank, in good faith, determines that it is  
15 not feasible to follow the instruction or that following the  
16 instruction would unduly delay completion of the funds  
17 transfer.

18 3. Unless subsection 1, paragraph "b", applies or the  
19 receiving bank is otherwise instructed, the receiving bank may  
20 execute a payment order by transmitting the receiving bank's  
21 payment order by first class mail or by any means reasonable  
22 under the circumstances. If the receiving bank is instructed  
23 to execute the sender's order by transmitting the receiving  
24 bank's payment order by a particular means, the receiving bank  
25 may issue the payment order by the means stated or by any  
26 means as expeditious as the means stated.

27 4. Unless instructed by the sender, the receiving bank may  
28 not obtain payment of its charges for services and expenses in  
29 connection with the execution of the sender's order by issuing  
30 a payment order in an amount equal to the amount of the  
31 sender's order less the amount of the charges, and may not  
32 instruct a subsequent receiving bank to obtain payment of its  
33 charges in the same manner.

34 Sec. 23. NEW SECTION. 554.12303 ERRONEOUS EXECUTION OF  
35 PAYMENT ORDER.

1 1. A receiving bank that executes the payment order of the  
2 sender by issuing a payment order in an amount greater than  
3 the amount of the sender's order, or that issues a payment  
4 order in execution of the sender's order and then issues a  
5 duplicate order, is entitled to payment of the amount of the  
6 sender's order under section 554.12402, subsection 3, if the  
7 provisions of that subsection are otherwise satisfied. The  
8 bank is entitled to recover from the beneficiary of the  
9 erroneous order the excess payment received to the extent  
10 allowed by the law governing mistake and restitution.

11 2. A receiving bank that executes the payment order of the  
12 sender by issuing a payment order in an amount less than the  
13 amount of the sender's order is entitled to payment of the  
14 amount of the sender's order under section 554.12402,  
15 subsection 3, if the provisions of that subsection are  
16 otherwise satisfied and the bank corrects the error by issuing  
17 an additional payment order for the benefit of the beneficiary  
18 of the sender's order. If the error is not corrected, the  
19 issuer of the erroneous order is entitled to receive or retain  
20 payment from the sender of the order only to the extent of the  
21 amount of the erroneous order. This subsection does not apply  
22 if the receiving bank executes the sender's payment order by  
23 issuing a payment order in an amount less than the amount of  
24 the sender's order for the purpose of obtaining payment of the  
25 receiving bank's charges for services and expenses pursuant to  
26 instruction of the sender.

27 3. If a receiving bank executes the payment order of the  
28 sender by issuing a payment order to a beneficiary different  
29 from the beneficiary of the sender's order and the funds  
30 transfer is completed on the basis of that error, the sender  
31 of the payment order that was erroneously executed and all  
32 previous senders in the funds transfer are not obligated to  
33 pay the payment orders they issued. The issuer of the  
34 erroneous order is entitled to recover from the beneficiary of  
35 the payment order issued the payment received to the extent

1 allowed by the law governing mistake and restitution.

2 Sec. 24. NEW SECTION. 554.12304 DUTY OF SENDER TO REPORT  
3 ERRONEOUSLY EXECUTED PAYMENT ORDER.

4 If the sender of a payment order that is erroneously  
5 executed as stated in section 554.12303 receives notification  
6 from the receiving bank that the order was executed or that  
7 the sender's account was debited with respect to the order,  
8 the sender has a duty to exercise ordinary care to determine,  
9 on the basis of information available to the sender, that the  
10 order was erroneously executed and to notify the bank of the  
11 relevant facts within a reasonable time not exceeding ninety  
12 days after the notification from the bank is received by the  
13 sender. If the sender fails to perform that duty, the bank is  
14 not obligated to pay interest on any amount refundable to the  
15 sender under section 554.12402, subsection 4, for the period  
16 before the bank learns of the execution error. The bank is  
17 not entitled to any recovery from the sender as a result of  
18 the failure by the sender to perform the duty stated in this  
19 section.

20 Sec. 25. NEW SECTION. 554.12305 LIABILITY FOR LATE OR  
21 IMPROPER EXECUTION OR FAILURE TO EXECUTE PAYMENT ORDER.

22 1. If a funds transfer is completed, but execution of a  
23 payment order by the receiving bank in breach of section  
24 554.12302 results in delay in payment to the beneficiary, the  
25 bank is obligated to pay interest to either the originator or  
26 the beneficiary of the funds transfer for the period of delay  
27 caused by the improper execution. Except as provided in  
28 subsection 3, additional damages are not recoverable.

29 2. If execution of a payment order by a receiving bank in  
30 breach of section 554.12302 results in noncompletion of the  
31 funds transfer, failure to use an intermediary bank designated  
32 by the originator, or issuance of a payment order that does  
33 not comply with the terms of the payment order of the  
34 originator, the bank is liable to the originator for the  
35 originator's expenses in the funds transfer and for incidental

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

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

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

18 5. Reasonable attorney's fees are recoverable if demand  
19 for compensation under subsection 1 or 2 is made and refused  
20 before an action is brought on the claim. If a claim is made  
21 for breach of an agreement under subsection 4 and the  
22 agreement does not provide for damages, reasonable attorney's  
23 fees are recoverable if demand for compensation under  
24 subsection 4 is made and refused before an action is brought  
25 on the claim.

26 6. Except as stated in this section, the liability of a  
27 receiving bank under subsections 1 and 2 may not be varied by  
28 agreement.

29 PART 4

30 PAYMENT

31 Sec. 26. NEW SECTION. 554.12401 PAYMENT DATE.

32 "Payment date" of a payment order means the day on which  
33 the amount of the order is payable to the beneficiary by the  
34 beneficiary's bank. The payment date may be determined by  
35 instruction of the sender but cannot be earlier than the day

1 the order is received by the beneficiary's bank and, unless  
2 otherwise determined, is the day the order is received by the  
3 beneficiary's bank.

4 Sec. 27. NEW SECTION. 554.12402 OBLIGATION OF SENDER TO  
5 PAY RECEIVING BANK.

6 1. This section is subject to sections 554.12205 and  
7 554.12207.

8 2. With respect to a payment order issued to the  
9 beneficiary's bank, acceptance of the order by the bank  
10 obligates the sender to pay the bank the amount of the order,  
11 but payment is not due until the payment date of the order.

12 3. This subsection is subject to subsection 5 and to  
13 section 554.12303. With respect to a payment order issued to  
14 a receiving bank other than the beneficiary's bank, acceptance  
15 of the order by the receiving bank obligates the sender to pay  
16 the bank the amount of the sender's order. Payment by the  
17 sender is not due until the execution date of the sender's  
18 order. The obligation of the sender to pay the sender's  
19 payment order is excused if the funds transfer is not  
20 completed by acceptance by the beneficiary's bank of the  
21 payment order instructing payment to the beneficiary of the  
22 sender's payment order.

23 4. If the sender of a payment order pays the order and was  
24 not obligated to pay all or part of the amount paid, the bank  
25 receiving payment shall refund payment to the extent the  
26 sender was not obligated to pay. Except as provided in  
27 sections 554.12204 and 554.12304, interest is payable on the  
28 refundable amount from the date of payment.

29 5. If a funds transfer is not completed as stated in  
30 subsection 3 and an intermediary bank is obligated to refund  
31 payment as stated in subsection 4 but is unable to do so  
32 because the intermediary bank is not permitted by applicable  
33 law or because the bank suspends payments, a sender in the  
34 funds transfer that executed a payment order in compliance  
35 with an instruction, as stated in section 554.12302,

1 subsection 1, paragraph "a", to route the funds transfer  
2 through the intermediary bank is entitled to receive or retain  
3 payment from the sender of the payment order that it accepted.  
4 The first sender in the funds transfer that issued an  
5 instruction requiring routing through that intermediary bank  
6 is subrogated to the right of the bank that paid the  
7 intermediary bank to refund as stated in subsection 4.

8 6. The right of the sender of a payment order to be  
9 excused from the obligation to pay the order as stated in  
10 subsection 3 or to receive refund under subsection 4 may not  
11 be varied by agreement.

12 Sec. 28. NEW SECTION. 554.12403 PAYMENT BY SENDER TO  
13 RECEIVING BANK.

14 1. Payment of the sender's obligation under section  
15 554.12402 to pay the receiving bank occurs as follows:

16 a. If the sender is a bank, payment occurs when the  
17 receiving bank receives final settlement of the obligation  
18 through a federal reserve bank or through a funds-transfer  
19 system.

20 b. If the sender is a bank and the sender credited an  
21 account of the receiving bank with the sender, or caused an  
22 account of the receiving bank in another bank to be credited,  
23 payment occurs when the credit is withdrawn or, if not  
24 withdrawn, at midnight of the day on which the credit is  
25 withdrawable and the receiving bank knows of that fact.

26 c. If the receiving bank debits an account of the sender  
27 with the receiving bank, payment occurs when the debit is made  
28 to the extent the debit is covered by a withdrawable credit  
29 balance in the account.

30 2. (i) If the sender and receiving bank are members of a  
31 funds-transfer system that nets obligations multilaterally  
32 among participants, the receiving bank receives final  
33 settlement when settlement is complete in accordance with the  
34 rules of the system. (ii) The obligation of the sender to  
35 pay the amount of a payment order transmitted through the

1 funds-transfer system may be satisfied, to the extent  
2 permitted by the rules of the system, by setting off and  
3 applying against the sender's obligation the right of the  
4 sender to receive payment from the receiving bank of the  
5 amount of any other payment order transmitted to the sender by  
6 the receiving bank through the funds-transfer system. (iii)  
7 The aggregate balance of obligations owed by each sender to  
8 each receiving bank in the funds-transfer system may be  
9 satisfied, to the extent permitted by the rules of the system,  
10 by setting off and applying against that balance the aggregate  
11 balance of obligations owed to the sender by other members of  
12 the system. The aggregate balance is determined after the  
13 right of setoff stated in clause (ii) of this subsection has  
14 been exercised.

15 3. If two banks transmit payment orders to each other  
16 under an agreement that settlement of the obligations of each  
17 bank to the other under section 554.12402 will be made at the  
18 end of the day or other period, the total amount owed with  
19 respect to all orders transmitted by one bank shall be set off  
20 against the total amount owed with respect to all orders  
21 transmitted by the other bank. To the extent of the setoff,  
22 each bank has made payment to the other.

23 4. In a case not covered by subsection 1, the time when  
24 payment of the sender's obligation occurs under section  
25 554.12402, subsection 2 or 3, is governed by applicable  
26 principles of law that determine when an obligation is  
27 satisfied.

28 Sec. 29. NEW SECTION. 554.12404 OBLIGATION OF  
29 BENEFICIARY'S BANK TO PAY AND GIVE NOTICE TO BENEFICIARY.

30 1. Subject to sections 554.12211, subsection 5, and  
31 554.12405, subsections 4 and 5, if a beneficiary's bank  
32 accepts a payment order, the beneficiary bank shall pay the  
33 amount of the order to the beneficiary of the order. Payment  
34 is due on the payment date of the order, but if acceptance  
35 occurs on the payment date after the close of the funds-

1 transfer business day of the beneficiary's bank, payment is  
2 due on the next funds-transfer business day. If the  
3 beneficiary's bank refuses to pay upon demand by the  
4 beneficiary and receipt of notice of particular circumstances  
5 that will give rise to consequential damages as a result of  
6 nonpayment, the beneficiary may recover damages resulting from  
7 the refusal to pay to the extent the beneficiary's bank had  
8 notice of the damages, unless the beneficiary's bank proves  
9 that it did not pay because of a reasonable doubt concerning  
10 the right of the beneficiary to payment.

11 2. If a payment order accepted by the beneficiary's bank  
12 instructs payment to an account of the beneficiary, the bank  
13 shall notify the beneficiary of receipt of the order before  
14 midnight of the next funds-transfer business day following the  
15 payment date. If the payment order does not instruct payment  
16 to an account of the beneficiary, the beneficiary's bank is  
17 required to notify the beneficiary only if notice is required  
18 by the order. Notice may be given by first class mail or any  
19 other means reasonable in the circumstances. If the  
20 beneficiary's bank fails to give the required notice, the bank  
21 shall pay interest to the beneficiary on the amount of the  
22 payment order from the day notice should have been given until  
23 the day the beneficiary learned of receipt of the payment  
24 order by the beneficiary's bank. No other damages are  
25 recoverable. Reasonable attorney's fees are also recoverable  
26 if demand for interest is made and refused before an action is  
27 brought on the claim.

28 3. The right of a beneficiary to receive payment and  
29 damages as stated in subsection 1 may not be varied by  
30 agreement or a funds-transfer system rule. The right of a  
31 beneficiary to be notified as stated in subsection 2 may be  
32 varied by agreement of the beneficiary or by a funds-transfer  
33 system rule if the beneficiary is notified of the rule before  
34 initiation of the funds transfer.

35 Sec. 30. NEW SECTION. 554.12405 PAYMENT BY BENEFICIARY'S

## 1 BANK TO BENEFICIARY.

2 1. If the beneficiary's bank credits an account of the  
3 beneficiary of a payment order, payment of the beneficiary's  
4 bank's obligation under section 554.12404, subsection 1,  
5 occurs when and to the extent the beneficiary is notified of  
6 the right to withdraw the credit, the bank lawfully applies  
7 the credit to a debt of the beneficiary, or funds with respect  
8 to the order are otherwise made available to the beneficiary  
9 by the beneficiary's bank.

10 2. If the beneficiary's bank does not credit an account of  
11 the beneficiary of a payment order, the time when payment of  
12 the beneficiary's bank's obligation under section 554.12404,  
13 subsection 1, occurs is governed by principles of law that  
14 determine when an obligation is satisfied.

15 3. Except as stated in subsections 4 and 5, if the  
16 beneficiary's bank pays the beneficiary of a payment order  
17 under a condition to payment or agreement of the beneficiary  
18 giving the beneficiary's bank the right to recover payment  
19 from the beneficiary if the bank does not receive payment of  
20 the order, the condition to payment or agreement is not  
21 enforceable.

22 4. A funds-transfer system rule may provide that payments  
23 made to beneficiaries of funds transfers made through the  
24 system are provisional until receipt of payment by the  
25 beneficiary's bank of the payment order the beneficiary's bank  
26 accepted. A beneficiary's bank that makes a payment that is  
27 provisional under the rule is entitled to refund from the  
28 beneficiary if the rule requires that both the beneficiary and  
29 the originator be given notice of the provisional nature of  
30 the payment before the funds transfer is initiated, the  
31 beneficiary, the beneficiary's bank and the originator's bank  
32 agreed to be bound by the rule, and the beneficiary's bank did  
33 not receive payment of the payment order that the  
34 beneficiary's bank accepted. If the beneficiary is obligated  
35 to refund payment to the beneficiary's bank, acceptance of the

1 payment order by the beneficiary's bank is nullified and no  
2 payment by the originator of the funds transfer to the  
3 beneficiary occurs under section 554.12406.

4 5. This subsection applies to a funds transfer that  
5 includes a payment order transmitted over a funds-transfer  
6 system that nets obligations multilaterally among  
7 participants, and has in effect a loss-sharing agreement among  
8 participants for the purpose of providing funds necessary to  
9 complete settlement of the obligations of one or more  
10 participants that do not meet their settlement obligations.  
11 If the beneficiary's bank in the funds transfer accepts a  
12 payment order and the system fails to complete settlement  
13 pursuant to the system's rules with respect to any payment  
14 order in the funds transfer, the acceptance by the  
15 beneficiary's bank is nullified and no person has any right or  
16 obligation based on the acceptance, the beneficiary's bank is  
17 entitled to recover payment from the beneficiary, payment by  
18 the originator to the beneficiary does not occur under section  
19 554.12406, and subject to section 554.12402, subsection 5,  
20 each sender in the funds transfer is excused from its  
21 obligation to pay its payment order under section 554.12402,  
22 subsection 3, because the funds transfer has not been  
23 completed.

24 Sec. 31. NEW SECTION. 554.12406 PAYMENT BY ORIGINATOR TO  
25 BENEFICIARY -- DISCHARGE OF UNDERLYING OBLIGATION.

26 1. Subject to section 554.12211, subsection 5, and section  
27 554.12405, subsections 4 and 5, the originator of a funds  
28 transfer pays the beneficiary of the originator's payment  
29 order at the time a payment order for the benefit of the  
30 beneficiary is accepted by the beneficiary's bank in the funds  
31 transfer and in an amount equal to the amount of the order  
32 accepted by the beneficiary's bank, but not more than the  
33 amount of the originator's order.

34 2. If payment under subsection 1 is made to satisfy an  
35 obligation, the obligation is discharged to the same extent

1 discharge would result from payment to the beneficiary of the  
2 same amount in money, unless the payment under subsection 1  
3 was made by a means prohibited by the contract of the  
4 beneficiary with respect to the obligation, the beneficiary,  
5 within a reasonable time after receiving notice of receipt of  
6 the order by the beneficiary's bank, notified the originator  
7 of the beneficiary's refusal of the payment, funds with  
8 respect to the order were not withdrawn by the beneficiary or  
9 applied to a debt of the beneficiary, or the beneficiary would  
10 suffer a loss that could reasonably have been avoided if  
11 payment had been made by a means complying with the contract.  
12 If payment by the originator does not result in discharge  
13 under this section, the originator is subrogated to the rights  
14 of the beneficiary to receive payment from the beneficiary's  
15 bank under section 554.12404, subsection 1.

16 3. For the purpose of determining whether discharge of an  
17 obligation occurs under subsection 2, if the beneficiary's  
18 bank accepts a payment order in an amount equal to the amount  
19 of the originator's payment order less charges of one or more  
20 receiving banks in the funds transfer, payment to the  
21 beneficiary is deemed to be in the amount of the originator's  
22 order unless upon demand by the beneficiary the originator  
23 does not pay the beneficiary the amount of the deducted  
24 charges.

25 4. Rights of the originator or of the beneficiary of a  
26 funds transfer under this section may be varied only by  
27 agreement of the originator and the beneficiary.

28 PART 5

29 MISCELLANEOUS PROVISIONS

30 Sec. 32. NEW SECTION. 554.12501 VARIATION BY AGREEMENT  
31 AND EFFECT OF FUNDS-TRANSFER SYSTEM RULE.

32 1. Except as otherwise provided in this article, the  
33 rights and obligations of a party to a funds transfer may be  
34 varied by agreement of the affected party.

35 2. "Funds-transfer system rule" means a rule of an

1 association of banks governing transmission of payment orders  
2 by means of a funds-transfer system of the association or  
3 rights and obligations with respect to those orders, or to the  
4 extent the rule governs rights and obligations between banks  
5 that are parties to a funds transfer in which a federal  
6 reserve bank, acting as an intermediary bank, sends a payment  
7 order to the beneficiary's bank. Except as otherwise provided  
8 in this article, a funds-transfer system rule governing rights  
9 and obligations between participating banks using the system  
10 may be effective even if the rule conflicts with this article  
11 and indirectly affects another party to the funds transfer who  
12 does not consent to the rule. A funds-transfer system rule  
13 may also govern the rights and obligations of parties other  
14 than participating banks using the system to the extent stated  
15 in section 554.12404, subsection 3, section 554.12405,  
16 subsection 4, and section 554.12507, subsection 3.

17 Sec. 33. NEW SECTION. 554.12502 CREDITOR PROCESS SERVED  
18 ON RECEIVING BANK -- SETOFF BY BENEFICIARY'S BANK.

19 1. As used in this section, "creditor process" means levy,  
20 attachment, garnishment, notice of lien, sequestration, or  
21 similar process issued by or on behalf of a creditor or other  
22 claimant with respect to an account.

23 2. This subsection applies to the creditor process with  
24 respect to an authorized account of the sender of a payment  
25 order if the creditor process is served on the receiving bank.  
26 For the purpose of determining the rights of the parties with  
27 respect to the creditor process, if the receiving bank accepts  
28 the payment order, the balance in the authorized account is  
29 deemed to be reduced by the amount of the payment order to the  
30 extent the bank did not otherwise receive payment of the  
31 order, unless the creditor process is served at a time and in  
32 a manner affording the bank a reasonable opportunity to act on  
33 it before the bank accepts the payment order.

34 3. If a beneficiary's bank has received a payment order  
35 for payment to the beneficiary's account in the bank, the

1 following rules apply:

2 a. The beneficiary's bank may credit the beneficiary's  
3 account. The amount credited may be set off against an  
4 obligation owed by the beneficiary to the bank or may be  
5 applied to satisfy a creditor process served on the bank with  
6 respect to the account.

7 b. The beneficiary's bank may credit the beneficiary's  
8 account and allow withdrawal of the amount credited unless a  
9 creditor process with respect to the account is served at a  
10 time and in a manner affording the beneficiary's bank a  
11 reasonable opportunity to act to prevent withdrawal.

12 c. If a creditor process with respect to the beneficiary's  
13 account has been served and the beneficiary's bank has had a  
14 reasonable opportunity to act on it, the beneficiary's bank  
15 may not reject the payment order except for a reason unrelated  
16 to the service of process.

17 4. Creditor process with respect to a payment by the  
18 originator to the beneficiary pursuant to a funds transfer may  
19 be served only on the beneficiary's bank with respect to the  
20 debt owed by that bank to the beneficiary. Any other bank  
21 served with the creditor process is not required to act with  
22 respect to the process.

23 Sec. 34. NEW SECTION. 554.12503 INJUNCTION OR  
24 RESTRAINING ORDER WITH RESPECT TO FUNDS TRANSFER.

25 For proper cause and in compliance with applicable law, a  
26 court may restrain a person from issuing a payment order to  
27 initiate a funds transfer, an originator's bank from executing  
28 the payment order of the originator, or the beneficiary's bank  
29 from releasing funds to the beneficiary or the beneficiary  
30 from withdrawing the funds. A court may not otherwise  
31 restrain a person from issuing a payment order, paying or  
32 receiving payment of a payment order, or otherwise acting with  
33 respect to a funds transfer.

34 Sec. 35. NEW SECTION. 554.12504 ORDER IN WHICH ITEMS AND  
35 PAYMENT ORDERS MAY BE CHARGED TO ACCOUNT -- ORDER OF

1 WITHDRAWALS FROM ACCOUNT.

2 1. If a receiving bank has received more than one payment  
3 order of the sender or one or more payment orders and other  
4 items that are payable from the sender's account, the bank may  
5 charge the sender's account with respect to the various orders  
6 and items in any sequence.

7 2. In determining whether a credit to an account has been  
8 withdrawn by the holder of the account or applied to a debt of  
9 the holder of the account, credits first made to the account  
10 are first withdrawn or applied.

11 Sec. 36. NEW SECTION. 554.12505 PRECLUSION OF OBJECTION  
12 TO DEBIT OF CUSTOMER'S ACCOUNT.

13 If a receiving bank has received payment from the receiving  
14 bank's customer with respect to a payment order issued in the  
15 name of the customer as sender and accepted by the receiving  
16 bank, and the customer received notification reasonably  
17 identifying the order, the customer is precluded from  
18 asserting that the receiving bank is not entitled to retain  
19 the payment unless the customer notifies the receiving bank of  
20 the customer's objection to the payment within one year after  
21 the notification was received by the customer.

22 Sec. 37. NEW SECTION. 554.12506 RATE OF INTEREST.

23 1. If, under this article, a receiving bank is to pay  
24 interest with respect to a payment order issued to the bank,  
25 the amount payable may be determined by agreement of the  
26 sender and receiving bank, or by a funds-transfer system rule  
27 if the payment order is transmitted through a funds-transfer  
28 system.

29 2. If the amount of interest is not determined by an  
30 agreement or rule as stated in subsection 1, the amount is  
31 calculated by multiplying the applicable federal funds rate by  
32 the amount on which interest is payable, and then multiplying  
33 the product by the number of days for which interest is  
34 payable. The applicable federal funds rate is the average of  
35 the federal funds rates published by the federal reserve bank

1 of New York for each of the days for which interest is payable  
2 divided by three hundred sixty. The federal funds rate for  
3 any day on which a published rate is not available is the same  
4 as the published rate for the next preceding day for which  
5 there is a published rate. If a receiving bank that accepted  
6 a payment order is required to refund payment to the sender of  
7 the order because the funds transfer was not completed, but  
8 the failure to complete was not due to any fault by the  
9 receiving bank, the interest payable is reduced by a  
10 percentage equal to the reserve requirement on deposits of the  
11 receiving bank.

12 Sec. 38. NEW SECTION. 554.12507 CHOICE OF LAW.

13 1. The following rules apply unless the affected parties  
14 otherwise agree or subsection 3 applies:

15 a. The rights and obligations between the sender of a  
16 payment order and the receiving bank are governed by the law  
17 of the jurisdiction in which the receiving bank is located.

18 b. The rights and obligations between the beneficiary's  
19 bank and the beneficiary are governed by the law of the  
20 jurisdiction in which the beneficiary's bank is located.

21 c. The issue of when payment is made pursuant to a funds  
22 transfer by the originator to the beneficiary is governed by  
23 the law of the jurisdiction in which the beneficiary's bank is  
24 located.

25 2. If the parties described in each paragraph of  
26 subsection 1 have made an agreement selecting the law of a  
27 particular jurisdiction to govern rights and obligations  
28 between each other, the law of that jurisdiction governs those  
29 rights and obligations, whether or not the payment order or  
30 the funds transfer bears a reasonable relation to that  
31 jurisdiction.

32 3. A funds-transfer system rule may select the law of a  
33 particular jurisdiction to govern (i) the rights and  
34 obligations between participating banks with respect to  
35 payment orders transmitted or processed through the system, or

1 (ii) the rights and obligations of some or all parties to a  
2 funds transfer any part of which is carried out by means of  
3 the system. A choice of law made pursuant to clause (i) is  
4 binding on participating banks. A choice of law made pursuant  
5 to clause (ii) is binding on the originator, other sender, or  
6 a receiving bank having notice that the funds-transfer system  
7 might be used in the funds transfer and of the choice of law  
8 by the system when the originator, other sender, or receiving  
9 bank issued or accepted a payment order. The beneficiary of a  
10 funds transfer is bound by the choice of law if, when the  
11 funds transfer is initiated, the beneficiary has notice that  
12 the funds-transfer system might be used in the funds transfer  
13 and of the choice of law by the system. The law of a  
14 jurisdiction selected pursuant to this subsection may govern,  
15 whether or not that law bears a reasonable relation to the  
16 matter in issue.

17 4. In the event of inconsistency between an agreement  
18 under subsection 2 and a choice-of-law rule under subsection  
19 3, the agreement under subsection 2 prevails.

20 5. If a funds transfer is made by use of more than one  
21 funds-transfer system and there is inconsistency between  
22 choice-of-law rules of the systems, the matter in issue is  
23 governed by the law of the selected jurisdiction that has the  
24 most significant relationship to the matter in issue.

25 Sec. 39. Section 554.1105, subsection 2, Code 1991, is  
26 amended to read as follows:

27 2. Where one of the following provisions of this chapter  
28 specifies the applicable law, that provision governs and a  
29 contrary agreement is effective only to the extent permitted  
30 by the law (including the conflict of laws rules) so  
31 specified:

- 32 Rights of creditors against sold goods. Section 554.2402.
- 33 Applicability of the Article on Bank Deposits and
- 34 Collections. Section 554.4102.
- 35 Bulk transfers subject to the Article on Bulk Transfers.



Except as otherwise provided in section 554.12108, this article applies to funds transfers defined in section 554.12104.

Sec. 3. NEW SECTION. 554.12103 PAYMENT ORDER -- DEFINITIONS.

In this article unless the context otherwise requires:

1. a. "Payment order" means an instruction of a sender to a receiving bank, transmitted orally, electronically, or in writing, to pay, or to cause another bank to pay, a fixed or determinable amount of money to a beneficiary if all of the following apply:

(1) The instruction does not state a condition to payment to the beneficiary other than time of payment.

(2) The receiving bank is to be reimbursed by debiting an account of, or otherwise receiving payment from, the sender.

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

b. A payment order instructing more than one payment to be made to a beneficiary is a separate payment order with respect to each payment.

c. A payment order is issued when it is sent to the receiving bank.

2. "Beneficiary" means the person to be paid by the beneficiary's bank.

3. "Beneficiary's bank" means the bank identified in a payment order in which an account of the beneficiary is to be credited pursuant to the order or which otherwise is to make payment to the beneficiary if the order does not provide for payment to an account.

4. "Receiving bank" means the bank to which the sender's instruction is addressed.

5. "Sender" means the person giving the instruction to the receiving bank.

HOUSE FILE 150

AN ACT  
RELATING TO THE TRANSFER OF FUNDS BY ENACTING THE UNIFORM  
ACT AND PROVIDING CIVIL REMEDIES.

BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

ARTICLE 12  
FUNDS TRANSFERS

PART 1

SUBJECT MATTER AND DEFINITIONS

Section 1. NEW SECTION. 554.12101 SHORT TITLE.

This article shall be known and may be cited as "Uniform  
Commercial Code -- Funds Transfers."

Sec. 2. NEW SECTION. 554.12102 SUBJECT MATTER.

Sec. 4. NEW SECTION. 554.12104 FUNDS TRANSFER -- DEFINITIONS.

In this article unless the context otherwise requires:

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

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

3. "Originator" means the sender of the first payment order in a funds transfer.

4. "Originator's bank" means the receiving bank to which the payment order of the originator is issued if the originator is not a bank, or the originator if the originator is a bank.

Sec. 5. NEW SECTION. 554.12105 OTHER DEFINITIONS.

1. In this article unless the context otherwise requires:

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

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

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

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

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

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

g. "Prove" with respect to a fact means to meet the burden of establishing the fact as defined in section 554.1201, subsection 8.

2. Other definitions applying to this article and the sections in which they appear are:

"Acceptance"	554.12209
"Beneficiary"	554.12103
"Beneficiary's bank"	554.12103
"Executed"	554.12301
"Execution date"	554.12301
"Funds transfer"	554.12104
"Funds-transfer system rule"	554.12501
"Governing law"	554.12507
"Intermediary bank"	554.12104
"Originator"	554.12104
"Originator's bank"	554.12104
"Payment by beneficiary's bank to beneficiary"	554.12405
"Payment by originator to beneficiary"	554.12406
"Payment by sender to receiving bank"	554.12403
"Payment date"	554.12401
"Payment order"	554.12103

"Receiving bank"	554.12103
"Security procedure"	554.12201
"Sender"	554.12103

3. The following definitions in article 4 apply to this article:

"Clearing house"	554.4104
"Item"	554.4104
"Suspends payments"	554.4104

4. In addition, article 1 contains general definitions and principles of construction and interpretation applicable throughout this article.

Sec. 6. NEW SECTION. 554.12106 TIME PAYMENT ORDER IS RECEIVED.

1. The time of receipt of a payment order or communication canceling or amending a payment order is determined by the rules applicable to receipt of a notice stated in section 554.1201, subsection 27. A receiving bank may establish a cut-off time or times on a funds-transfer business day for the receipt and processing of payment orders, and communications canceling or amending payment orders. Different cut-off times may apply to payment orders, cancellations, or amendments, or to different categories of payment orders, cancellations, or amendments. A cut-off time may apply to senders generally, or different cut-off times may apply to different senders or categories of payment orders. If a payment order or communication canceling or amending a payment order is received after the close of a funds-transfer business day or after the appropriate cut-off time on a funds-transfer business day, the receiving bank may treat the payment order or communication as received at the opening of the next funds-transfer business day.

2. Unless otherwise provided, if this article refers to an execution date or payment date or states a day on which a receiving bank is required to take action, and the date or day does not fall on a funds-transfer business day, the next day

that is a funds-transfer business day is treated as the date or day stated.

Sec. 7. NEW SECTION. 554.12107 FEDERAL RESERVE REGULATIONS AND OPERATING CIRCULARS.

Regulations of the board of governors of the federal reserve system and operating circulars of the federal reserve banks as of July 1, 1991, supersede any inconsistent provision of this article to the extent of the inconsistency.

Sec. 8. NEW SECTION. 554.12108 EXCLUSION OF CONSUMER TRANSACTIONS GOVERNED BY FEDERAL LAW.

This article does not apply to a funds transfer any part of which is governed by the Electronic Fund Transfer Act of 1978, 15 U.S.C. § 1693 et seq.

## PART 2

### ISSUE AND ACCEPTANCE OF PAYMENT ORDER

Sec. 9. NEW SECTION. 554.12201 SECURITY PROCEDURE.

"Security procedure" means a procedure established by agreement between a customer and a receiving bank for the purpose of verifying that a payment order or communication amending or canceling a payment order is that of the customer, or detecting error in the transmission or the content of the payment order or communication. A security procedure may require the use of algorithms or other codes, identifying words or numbers, encryption, callback procedures, or similar security devices. Comparison of a signature on a payment order or communication with an authorized specimen signature of the customer is not by itself a security procedure.

Sec. 10. NEW SECTION. 554.12202 AUTHORIZED AND VERIFIED PAYMENT ORDERS.

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

2. If a bank and its customer have agreed that the authenticity of payment orders issued to the bank in the name

of the customer as sender will be verified pursuant to a security procedure, a payment order received by the receiving bank is effective as the order of the customer, whether or not authorized, if the security procedure is a commercially reasonable method of providing security against unauthorized payment orders, and the bank proves that it accepted the payment order in good faith and in compliance with the security procedure and any written agreement or instruction of the customer restricting acceptance of payment orders issued in the name of the customer. The bank is not required to follow an instruction that violates a written agreement with the customer or notice of which is not received at a time and in a manner affording the bank a reasonable opportunity to act on it before the payment order is accepted.

3. Commercial reasonableness of a security procedure is a question of law to be determined by considering the wishes of the customer expressed to the bank, the circumstances of the customer known to the bank, including the size, type, and frequency of payment orders normally issued by the customer to the bank, alternative security procedures offered to the customer, and security procedures in general use by customers and receiving banks similarly situated. A security procedure is deemed to be commercially reasonable if the security procedure was chosen by the customer after the bank offered, and the customer refused, a security procedure that was commercially reasonable for that customer, and the customer expressly agreed in writing to be bound by any payment order, whether or not authorized, issued in the customer's name and accepted by the bank in compliance with the security procedure chosen by the customer.

4. The term "sender" in this article includes the customer in whose name a payment order is issued if the order is the authorized order of the customer under subsection 1, or it is effective as the order of the customer under subsection 2.

5. This section applies to amendments and cancellations of payment orders in the same manner it applies to payment orders.

6. Except as provided in this section and section 554.12203, rights and obligations arising under this section or section 554.12203 may not be varied by agreement.

Sec. 11. NEW SECTION. 554.12203 UNENFORCEABILITY OF CERTAIN VERIFIED PAYMENT ORDERS.

If an accepted payment order is not an authorized order of a customer identified as sender pursuant to section 554.12202, subsection 1, but is effective as an order of the customer pursuant to section 554.12202, subsection 2, the following rules apply:

1. By express written agreement, the receiving bank may limit the extent to which it is entitled to enforce or retain payment of the payment order.

2. The receiving bank is not entitled to enforce or retain payment of the payment order if the customer proves that the order was not caused, directly or indirectly, by a person entrusted at any time with the authority to act for the customer with respect to payment orders or the security procedure, or who obtained access to transmitting facilities of the customer or who obtained, from a source controlled by the customer and without authority of the receiving bank, information facilitating breach of the security procedure, regardless of how the information was obtained or whether the customer was at fault. Information includes any access device, computer software, or similar items.

3. This section applies to amendments of payment orders in the same manner it applies to payment orders.

Sec. 12. NEW SECTION. 554.12204 REFUND OF PAYMENT AND DUTY OF CUSTOMER TO REPORT WITH RESPECT TO UNAUTHORIZED PAYMENT ORDER.

1. If a receiving bank accepts a payment order issued in the name of its customer as sender which is not authorized and

not effective as the order of the customer under section 554.12202, or which is not enforceable, in whole or in part, against the customer under section 554.12203, the bank shall refund any payment related to the payment order received from the customer to the extent the bank is not entitled to enforce payment and shall pay interest on the refundable amount calculated from the date the bank received payment to the date of the refund. However, the customer is not entitled to interest from the bank on the amount to be refunded if the customer fails to exercise ordinary care to determine that the order was not authorized by the customer and to notify the bank of the relevant facts within a reasonable time not exceeding ninety days after the date the customer received notification from the bank that the order was accepted or that the customer's account was debited with respect to the order. The bank is not entitled to any recovery from the customer as a result of a failure by the customer to give notification as stated in this section.

2. Reasonable time under subsection 1 may be fixed by agreement as provided in section 554.1204, subsection 1, but the obligation of a receiving bank to refund payment as stated in subsection 1 may not otherwise be varied by agreement.

Sec. 13. NEW SECTION. 554.12205 ERRONEOUS PAYMENT ORDERS.

1. If an accepted payment order was transmitted pursuant to a security procedure for the detection of error and the payment order (i) erroneously instructed payment to a beneficiary not intended by the sender, (ii) erroneously instructed payment in an amount greater than the amount intended by the sender, or (iii) was an erroneously transmitted duplicate of a payment order previously sent by the sender, the following rules apply:

a. If the sender proves that the sender or a person acting on behalf of the sender pursuant to section 554.12206 complied with the security procedure and that the error would have been

detected if the receiving bank had also complied, the sender is not obligated to pay the order to the extent stated in subsections 2 and 3.

b. If the funds transfer is completed on the basis of an erroneous payment order described in (i) or (iii) of subsection 1, the sender is not obligated to pay the order and the receiving bank is entitled to recover from the beneficiary any amount paid to the beneficiary to the extent allowed by the law governing mistake and restitution.

c. If the funds transfer is completed on the basis of a payment order described in (ii) of subsection 1, the sender is not obligated to pay the order to the extent the amount received by the beneficiary is greater than the amount intended by the sender. In that case, the receiving bank is entitled to recover from the beneficiary the excess amount received to the extent allowed by the law governing mistake and restitution.

2. If the sender of an erroneous payment order described in subsection 1 is not obligated to pay all or part of the order, and the sender receives notification from the receiving bank that the order was accepted by the bank or that the sender's account was debited with respect to the order, the sender has a duty to exercise ordinary care, on the basis of information available to the sender, to discover the error with respect to the order and to advise the bank of the relevant facts within a reasonable time, not exceeding ninety days, after the bank's notification was received by the sender. If the bank proves that the sender failed to perform this duty, the sender is liable to the bank for the loss the bank proves it incurred as a result of the failure, not to exceed the amount of the sender's order.

3. This section applies to amendments to payment orders in the same manner it applies to payment orders.

Sec. 14. NEW SECTION. 554.12206 TRANSMISSION OF PAYMENT ORDER THROUGH FUNDS-TRANSFER OR OTHER COMMUNICATION SYSTEM.

If a payment order addressed to a receiving bank is transmitted to a funds-transfer system or other third-party communication system for transmittal to the bank, the system is deemed to be an agent of the sender for the purpose of transmitting the payment order to the bank. If there is a discrepancy between the terms of the payment order transmitted to the system by the sender and the terms of the payment order transmitted by the system to the bank, the terms of the payment order of the sender are deemed to be those transmitted by the system. This section does not apply to a funds-transfer system of the federal reserve banks.

This section applies to cancellations and amendments of payment orders in the same manner it applies to payment orders.

Sec. 15. NEW SECTION. 554.12207 MISDESCRIPTION OF BENEFICIARY.

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

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

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

b. If the beneficiary's bank pays the person identified by name or knows that the name and number identify different persons, no person has rights as beneficiary except the person

paid by the beneficiary's bank if that person was entitled to receive payment from the originator of the funds transfer. If no person has rights as beneficiary, acceptance of the order cannot occur.

3. If a payment order described in subsection 2 is accepted, the originator's payment order described the beneficiary inconsistently by name and number, and the beneficiary's bank pays the person identified by number as permitted by subsection 2, paragraph "a", the following rules apply:

a. If the originator is a bank, the originator shall pay the originator's order.

b. If the originator is not a bank and proves that the person identified by number was not entitled to receive payment from the originator, the originator is not obligated to pay the originator's order unless the originator's bank proves that the originator had notice, before acceptance by the originator's bank of the originator's order, that payment of a payment order issued by the originator might be made by the beneficiary's bank on the basis of an identifying or bank account number even if it identifies a person different from the named beneficiary. Proof of notice may be made by any admissible evidence. The originator's bank satisfies the burden of proof if it proves that the originator signed a writing stating the information to which the notice relates before the payment order was accepted.

4. In a case governed by subsection 2, paragraph "a", if the beneficiary's bank rightfully pays the person identified by number and that person was not entitled to receive payment from the originator, the amount paid may be recovered from that person to the extent allowed by the law governing mistake and restitution as follows:

a. If the originator is obligated to pay its payment order as stated in subsection 3, the originator has the right to recover.

b. If the originator is not a bank and is not obligated to pay its payment order, the originator's bank has the right to recover.

Sec. 16. NEW SECTION. 554.12208 MISDESCRIPTION OF INTERMEDIARY BANK OR BENEFICIARY'S BANK.

1. This subsection applies to a payment order identifying an intermediary bank or the beneficiary's bank only by an identifying number.

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

b. The sender shall compensate the receiving bank for any loss and expenses incurred by the receiving bank as a result of the receiving bank's reliance on the number in executing or attempting to execute the order.

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

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

b. If the sender is not a bank and the receiving bank proves that the sender, before the payment order was accepted, had notice that the receiving bank might rely on the number as the proper identification of the intermediary or beneficiary's bank even if it identifies a person different from the bank

identified by name, the rights and obligations of the sender and the receiving bank are governed by paragraph "a", as though the sender were a bank. Proof of notice may be made by any admissible evidence. The receiving bank satisfies the burden of proof if it proves that the sender, before the payment order was accepted, signed a writing stating the information to which the notice relates.

c. Regardless of whether the sender is a bank, the receiving bank may rely on the name as the proper identification of the intermediary or beneficiary's bank if the receiving bank, at the time the receiving bank executes the sender's order, does not know that the name and number identify different persons. The receiving bank need not determine whether the name and number refer to the same person.

d. If the receiving bank knows that the name and number identify different persons, reliance on either the name or the number in executing the sender's payment order is a breach of the obligation stated in section 554.12302, subsection 1, paragraph "a".

Sec. 17. NEW SECTION. 554.12209 ACCEPTANCE OF PAYMENT ORDER.

1. Subject to subsection 4, a receiving bank other than the beneficiary's bank accepts a payment order when it executes the order.

2. Subject to subsections 3 and 4, a beneficiary's bank accepts a payment order at the earliest of the following times:

a. When the bank pays the beneficiary as stated in section 554.12405, subsection 1 or 2, or notifies the beneficiary of receipt of the order or that the account of the beneficiary has been credited with respect to the order, unless the notice indicates that the bank is rejecting the order or that funds with respect to the order may not be withdrawn or used until receipt of payment from the sender of the order;

b. When the bank receives payment of the entire amount of the sender's order pursuant to section 554.12403, subsection 1, paragraph "a" or "b"; or

c. The opening of the next funds transfer business day of the bank following the payment date of the order if, at that time, the amount of the sender's order is fully covered by a withdrawable credit balance in an authorized account of the sender or the bank has otherwise received full payment from the sender, unless the order was rejected before that time or is rejected within one hour after that time, or one hour after the opening of the next business day of the sender following the payment date if the time is later. If notice of rejection is received by the sender after the payment date and the authorized account of the sender does not bear interest, the bank shall pay interest to the sender on the amount of the order for the number of days elapsing after the payment date to the day the sender receives notice or learns that the order was not accepted, counting the day that notice is received as an elapsed day. If the withdrawable credit balance during that period falls below the amount of the order, the amount of interest payable is reduced accordingly.

3. Acceptance of a payment order cannot occur before the order is received by the receiving bank. Acceptance does not occur under subsection 2, paragraph "b" or "c", if the beneficiary of the payment order does not have an account with the receiving bank, the account has been closed, or the receiving bank is not permitted by law to receive credits for the beneficiary's account.

4. A payment order issued to the originator's bank cannot be accepted until the payment date if the bank is the beneficiary's bank, or the execution date if the bank is not the beneficiary's bank. If the originator's bank executes the originator's payment order before the execution date or pays the beneficiary of the originator's payment order before the payment date and the payment order is subsequently canceled

pursuant to section 554.12211, subsection 2, the bank may recover from the beneficiary any payment received to the extent allowed by the law governing mistake and restitution.

Sec. 18. NEW SECTION. 554.12210 REJECTION OF PAYMENT ORDER.

1. A payment order is rejected by the receiving bank by a notice of rejection transmitted to the sender orally, electronically, or in writing. A notice of rejection need not use any particular words and is sufficient if the notice indicates that the receiving bank is rejecting the order or will not execute or pay the order. Rejection is effective when the notice is given if transmission is by a means that is reasonable under the circumstances. If notice of rejection is given by a means that is not reasonable, rejection is effective when the notice is received. If an agreement of the sender and receiving bank establishes the means to be used to reject a payment order, any means complying with the agreement is reasonable and any means not complying is not reasonable unless no significant delay in receipt of the notice resulted from the use of the noncomplying means.

2. This subsection applies if a receiving bank other than the beneficiary's bank fails to execute a payment order despite the existence on the execution date of a withdrawable credit balance in an authorized account of the sender sufficient to cover the order. If the sender does not receive notice of rejection of the order on the execution date and the authorized account of the sender does not bear interest, the bank shall pay interest to the sender on the amount of the order for the number of days elapsing after the execution date to the earlier of the day the order is canceled pursuant to section 554.12211, subsection 4, or the day the sender receives notice or learns that the order was not executed, counting the final day of the period as an elapsed day. If the withdrawable credit balance during that period falls below the amount of the order, the amount of interest is reduced accordingly.

3. If a receiving bank suspends payments, all unaccepted payment orders issued to the receiving bank are deemed rejected at the time the bank suspends payments.

4. Acceptance of a payment order precludes a later rejection of the order. Rejection of a payment order precludes a later acceptance of the order.

Sec. 19. NEW SECTION. 554.12211 CANCELLATION AND AMENDMENT OF PAYMENT ORDER.

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

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

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

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

b. With respect to a payment order accepted by the beneficiary's bank, cancellation or amendment is not effective unless the order was issued in execution of an unauthorized payment order, or because of a mistake by a sender in the

funds transfer which resulted in the issuance of a payment order that is a duplicate of a payment order previously issued by the sender, that orders payment to a beneficiary not entitled to receive payment from the originator, or that orders payment in an amount greater than the amount the beneficiary was entitled to receive from the originator. If the payment order is canceled or amended, the beneficiary's bank is entitled to recover from the beneficiary any amount paid to the beneficiary to the extent allowed by the law governing mistake and restitution.

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

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

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

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

8. A funds-transfer system rule is not effective to the extent it conflicts with subsection 3, paragraph "b".

Sec. 20. NEW SECTION. 554.12212 LIABILITY AND DUTY OF RECEIVING BANK REGARDING UNACCEPTED PAYMENT ORDER.

If a receiving bank fails to accept a payment order that it is obligated by express agreement to accept, the bank is liable for breach of the agreement to the extent provided in the agreement or in this article, but does not otherwise have any duty to accept a payment order or, before acceptance, to take any action, or refrain from taking action, with respect to the order except as provided in this article or by express agreement. Liability based on acceptance arises only when acceptance occurs as stated in section 554.12209, and liability is limited to that provided in this article. A receiving bank is not the agent of the sender or beneficiary of the payment order it accepts, or of any other party to the funds transfer, and the bank owes no duty to any party to the funds transfer except as provided in this article or by express agreement.

#### PART 3

##### EXECUTION OF SENDER'S PAYMENT ORDER BY RECEIVING BANK

Sec. 21. NEW SECTION. 554.12301 EXECUTION AND EXECUTION DATE.

1. A payment order is executed by the receiving bank when the receiving bank issues a payment order intended to carry out the payment order received by the bank. A payment order received by the beneficiary's bank can be accepted but cannot be executed.

2. "Execution date" of a payment order means the day on which the receiving bank may properly issue a payment order in execution of the sender's order. The execution date may be determined by instruction of the sender but cannot be earlier than the day the order is received and, unless otherwise determined, is the day the order is received. If the sender's instruction states a payment date, the execution date is the

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

Sec. 22. NEW SECTION. 554.12302 OBLIGATIONS OF RECEIVING BANK IN EXECUTION OF PAYMENT ORDER.

1. Except as provided in subsections 2 through 4, if the receiving bank accepts a payment order pursuant to section 554.12209, subsection 1, the bank has the following obligations in executing the order:

a. The receiving bank is obligated to issue, on the execution date, a payment order complying with the sender's order and to follow the sender's instructions concerning any intermediary bank or funds-transfer system to be used in carrying out the funds transfer, or the means by which payment orders are to be transmitted in the funds transfer. If the originator's bank issues a payment order to an intermediary bank, the originator's bank shall instruct the intermediary bank according to the instruction of the originator. An intermediary bank in the funds transfer is similarly bound by an instruction given to it by the sender of the payment order it accepts.

b. If the sender's instruction states that the funds transfer is to be carried out telephonically or by wire transfer or otherwise indicates that the funds transfer is to be carried out by the most expeditious means, the receiving bank is obligated to transmit its payment order by the most expeditious available means, and to instruct any intermediary bank accordingly. If a sender's instruction states a payment date, the receiving bank shall transmit the receiving bank's payment order at a time and by means reasonably necessary to allow payment to the beneficiary on the payment date or as soon thereafter as is feasible.

2. Unless otherwise instructed, a receiving bank executing a payment order may use any funds-transfer system if use of that system is reasonable under the circumstances, and issue a

payment order to the beneficiary's bank or to an intermediary bank through which a payment order conforming to the sender's order can expeditiously be issued to the beneficiary's bank if the receiving bank exercises ordinary care in the selection of the intermediary bank. A receiving bank is not required to follow an instruction of the sender designating a funds-transfer system to be used in carrying out the funds transfer if the receiving bank, in good faith, determines that it is not feasible to follow the instruction or that following the instruction would unduly delay completion of the funds transfer.

3. Unless subsection 1, paragraph "b", applies or the receiving bank is otherwise instructed, the receiving bank may execute a payment order by transmitting the receiving bank's payment order by first class mail or by any means reasonable under the circumstances. If the receiving bank is instructed to execute the sender's order by transmitting the receiving bank's payment order by a particular means, the receiving bank may issue the payment order by the means stated or by any means as expeditious as the means stated.

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

Sec. 23. NEW SECTION. 554.12303 ERRONEOUS EXECUTION OF PAYMENT ORDER.

1. A receiving bank that executes the payment order of the sender by issuing a payment order in an amount greater than the amount of the sender's order, or that issues a payment order in execution of the sender's order and then issues a duplicate order, is entitled to payment of the amount of the sender's order under section 554.12402, subsection 3, if the

provisions of that subsection are otherwise satisfied. The bank is entitled to recover from the beneficiary of the erroneous order the excess payment received to the extent allowed by the law governing mistake and restitution.

2. A receiving bank that executes the payment order of the sender by issuing a payment order in an amount less than the amount of the sender's order is entitled to payment of the amount of the sender's order under section 554.12402, subsection 3, if the provisions of that subsection are otherwise satisfied and the bank corrects the error by issuing an additional payment order for the benefit of the beneficiary of the sender's order. If the error is not corrected, the issuer of the erroneous order is entitled to receive or retain payment from the sender of the order only to the extent of the amount of the erroneous order. This subsection does not apply if the receiving bank executes the sender's payment order by issuing a payment order in an amount less than the amount of the sender's order for the purpose of obtaining payment of the receiving bank's charges for services and expenses pursuant to instruction of the sender.

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

Sec. 24. NEW SECTION. 554.12304 DUTY OF SENDER TO REPORT ERRONEOUSLY EXECUTED PAYMENT ORDER.

If the sender of a payment order that is erroneously executed as stated in section 554.12303 receives notification from the receiving bank that the order was executed or that

the sender's account was debited with respect to the order, the sender has a duty to exercise ordinary care to determine, on the basis of information available to the sender, that the order was erroneously executed and to notify the bank of the relevant facts within a reasonable time not exceeding ninety days after the notification from the bank is received by the sender. If the sender fails to perform that duty, the bank is not obligated to pay interest on any amount refundable to the sender under section 554.12402, subsection 4, for the period before the bank learns of the execution error. The bank is not entitled to any recovery from the sender as a result of the failure by the sender to perform the duty stated in this section.

Sec. 25. NEW SECTION. 554.12305 LIABILITY FOR LATE OR IMPROPER EXECUTION OR FAILURE TO EXECUTE PAYMENT ORDER.

1. If a funds transfer is completed, but execution of a payment order by the receiving bank in breach of section 554.12302 results in delay in payment to the beneficiary, the bank is obligated to pay interest to either the originator or the beneficiary of the funds transfer for the period of delay caused by the improper execution. Except as provided in subsection 3, additional damages are not recoverable.

2. If execution of a payment order by a receiving bank in breach of section 554.12302 results in noncompletion of the funds transfer, failure to use an intermediary bank designated by the originator, or issuance of a payment order that does not comply with the terms of the payment order of the originator, the bank is liable to the originator for the originator's expenses in the funds transfer and for incidental expenses and interest losses, to the extent not covered by subsection 1, resulting from the improper execution. Except as provided in subsection 3, additional damages are not recoverable.

3. In addition to the amounts payable under subsections 1 and 2, damages, including consequential damages, are

recoverable to the extent provided in an express written agreement of the receiving bank.

4. If a receiving bank fails to execute a payment order that the receiving bank was obligated by express agreement to execute, the receiving bank is liable to the sender for the sender's expenses in the transaction and for incidental expenses and interest losses resulting from the failure to execute. Additional damages, including consequential damages, are recoverable to the extent provided in an express written agreement of the receiving bank, but are not otherwise recoverable.

5. Reasonable attorney's fees are recoverable if demand for compensation under subsection 1 or 2 is made and refused before an action is brought on the claim. If a claim is made for breach of an agreement under subsection 4 and the agreement does not provide for damages, reasonable attorney's fees are recoverable if demand for compensation under subsection 4 is made and refused before an action is brought on the claim.

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

PART 4

PAYMENT

Sec. 26. NEW SECTION. 554.12401 PAYMENT DATE.

"Payment date" of a payment order means the day on which the amount of the order is payable to the beneficiary by the beneficiary's bank. The payment date may be determined by instruction of the sender but cannot be earlier than the day the order is received by the beneficiary's bank and, unless otherwise determined, is the day the order is received by the beneficiary's bank.

Sec. 27. NEW SECTION. 554.12402 OBLIGATION OF SENDER TO PAY RECEIVING BANK.

1. This section is subject to sections 554.12205 and 554.12207.

2. With respect to a payment order issued to the beneficiary's bank, acceptance of the order by the bank obligates the sender to pay the bank the amount of the order, but payment is not due until the payment date of the order.

3. This subsection is subject to subsection 5 and to section 554.12303. With respect to a payment order issued to a receiving bank other than the beneficiary's bank, acceptance of the order by the receiving bank obligates the sender to pay the bank the amount of the sender's order. Payment by the sender is not due until the execution date of the sender's order. The obligation of the sender to pay the sender's payment order is excused if the funds transfer is not completed by acceptance by the beneficiary's bank of the payment order instructing payment to the beneficiary of the sender's payment order.

4. If the sender of a payment order pays the order and was not obligated to pay all or part of the amount paid, the bank receiving payment shall refund payment to the extent the sender was not obligated to pay. Except as provided in sections 554.12204 and 554.12304, interest is payable on the refundable amount from the date of payment.

5. If a funds transfer is not completed as stated in subsection 3 and an intermediary bank is obligated to refund payment as stated in subsection 4 but is unable to do so because the intermediary bank is not permitted by applicable law or because the bank suspends payments, a sender in the funds transfer that executed a payment order in compliance with an instruction, as stated in section 554.12302, subsection 1, paragraph "a", to route the funds transfer through the intermediary bank is entitled to receive or retain payment from the sender of the payment order that it accepted. The first sender in the funds transfer that issued an instruction requiring routing through that intermediary bank

is subrogated to the right of the bank that paid the intermediary bank to refund as stated in subsection 4.

6. The right of the sender of a payment order to be excused from the obligation to pay the order as stated in subsection 3 or to receive refund under subsection 4 may not be varied by agreement.

Sec. 28. NEW SECTION. 554.12403 PAYMENT BY SENDER TO RECEIVING BANK.

1. Payment of the sender's obligation under section 554.12402 to pay the receiving bank occurs as follows:

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

b. If the sender is a bank and the sender credited an account of the receiving bank with the sender, or caused an account of the receiving bank in another bank to be credited, payment occurs when the credit is withdrawn or, if not withdrawn, at midnight of the day on which the credit is withdrawable and the receiving bank knows of that fact.

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

2. (i) If the sender and receiving bank are members of a funds-transfer system that nets obligations multilaterally among participants, the receiving bank receives final settlement when settlement is complete in accordance with the rules of the system. (ii) The obligation of the sender to pay the amount of a payment order transmitted through the funds-transfer system may be satisfied, to the extent permitted by the rules of the system, by setting off and applying against the sender's obligation the right of the sender to receive payment from the receiving bank of the amount of any other payment order transmitted to the sender by

the receiving bank through the funds-transfer system. (11) The aggregate balance of obligations owed by each sender to each receiving bank in the funds-transfer system may be satisfied, to the extent permitted by the rules of the system, by setting off and applying against that balance the aggregate balance of obligations owed to the sender by other members of the system. The aggregate balance is determined after the right of setoff stated in clause (11) of this subsection has been exercised.

3. If two banks transmit payment orders to each other under an agreement that settlement of the obligations of each bank to the other under section 554.12402 will be made at the end of the day or other period, the total amount owed with respect to all orders transmitted by one bank shall be set off against the total amount owed with respect to all orders transmitted by the other bank. To the extent of the setoff, each bank has made payment to the other.

4. In a case not covered by subsection 1, the time when payment of the sender's obligation occurs under section 554.12402, subsection 2 or 3, is governed by applicable principles of law that determine when an obligation is satisfied.

Sec. 29. NEW SECTION. 554.12404 OBLIGATION OF BENEFICIARY'S BANK TO PAY AND GIVE NOTICE TO BENEFICIARY.

1. Subject to sections 554.12211, subsection 5, and 554.12405, subsections 4 and 5, if a beneficiary's bank accepts a payment order, the beneficiary bank shall pay the amount of the order to the beneficiary of the order. Payment is due on the payment date of the order, but if acceptance occurs on the payment date after the close of the funds-transfer business day of the beneficiary's bank, payment is due on the next funds-transfer business day. If the beneficiary's bank refuses to pay upon demand by the beneficiary and receipt of notice of particular circumstances that will give rise to consequential damages as a result of

nonpayment, the beneficiary may recover damages resulting from the refusal to pay to the extent the beneficiary's bank had notice of the damages, unless the beneficiary's bank proves that it did not pay because of a reasonable doubt concerning the right of the beneficiary to payment.

2. If a payment order accepted by the beneficiary's bank instructs payment to an account of the beneficiary, the bank shall notify the beneficiary of receipt of the order before midnight of the next funds-transfer business day following the payment date. If the payment order does not instruct payment to an account of the beneficiary, the beneficiary's bank is required to notify the beneficiary only if notice is required by the order. Notice may be given by first class mail or any other means reasonable in the circumstances. If the beneficiary's bank fails to give the required notice, the bank shall pay interest to the beneficiary on the amount of the payment order from the day notice should have been given until the day the beneficiary learned of receipt of the payment order by the beneficiary's bank. No other damages are recoverable. Reasonable attorney's fees are also recoverable if demand for interest is made and refused before an action is brought on the claim.

3. The right of a beneficiary to receive payment and damages as stated in subsection 1 may not be varied by agreement or a funds-transfer system rule. The right of a beneficiary to be notified as stated in subsection 2 may be varied by agreement of the beneficiary or by a funds-transfer system rule if the beneficiary is notified of the rule before initiation of the funds transfer.

Sec. 30. NEW SECTION. 554.12405 PAYMENT BY BENEFICIARY'S BANK TO BENEFICIARY.

1. If the beneficiary's bank credits an account of the beneficiary of a payment order, payment of the beneficiary's bank's obligation under section 554.12404, subsection 1, occurs when and to the extent the beneficiary is notified of

the right to withdraw the credit, the bank lawfully applies the credit to a debt of the beneficiary, or funds with respect to the order are otherwise made available to the beneficiary by the beneficiary's bank.

2. If the beneficiary's bank does not credit an account of the beneficiary of a payment order, the time when payment of the beneficiary's bank's obligation under section 554.12404, subsection 1, occurs is governed by principles of law that determine when an obligation is satisfied.

3. Except as stated in subsections 4 and 5, if the beneficiary's bank pays the beneficiary of a payment order under a condition to payment or agreement of the beneficiary giving the beneficiary's bank the right to recover payment from the beneficiary if the bank does not receive payment of the order, the condition to payment or agreement is not enforceable.

4. A funds-transfer system rule may provide that payments made to beneficiaries of funds transfers made through the system are provisional until receipt of payment by the beneficiary's bank of the payment order the beneficiary's bank accepted. A beneficiary's bank that makes a payment that is provisional under the rule is entitled to refund from the beneficiary if the rule requires that both the beneficiary and the originator be given notice of the provisional nature of the payment before the funds transfer is initiated, the beneficiary, the beneficiary's bank and the originator's bank agreed to be bound by the rule, and the beneficiary's bank did not receive payment of the payment order that the beneficiary's bank accepted. If the beneficiary is obligated to refund payment to the beneficiary's bank, acceptance of the payment order by the beneficiary's bank is nullified and no payment by the originator of the funds transfer to the beneficiary occurs under section 554.12406.

5. This subsection applies to a funds transfer that includes a payment order transmitted over a funds transfer

system that nets obligations multilaterally among participants, and has in effect a loss-sharing agreement among participants for the purpose of providing funds necessary to complete settlement of the obligations of one or more participants that do not meet their settlement obligations. If the beneficiary's bank in the funds transfer accepts a payment order and the system fails to complete settlement pursuant to the system's rules with respect to any payment order in the funds transfer, the acceptance by the beneficiary's bank is nullified and no person has any right or obligation based on the acceptance, the beneficiary's bank is entitled to recover payment from the beneficiary, payment by the originator to the beneficiary does not occur under section 554.12406, and subject to section 554.12402, subsection 5, each sender in the funds transfer is excused from its obligation to pay its payment order under section 554.12402, subsection 3, because the funds transfer has not been completed.

Sec. 31. NEW SECTION. 554.12406 PAYMENT BY ORIGINATOR TO BENEFICIARY -- DISCHARGE OF UNDERLYING OBLIGATION.

1. Subject to section 554.12211, subsection 5, and section 554.12405, subsections 4 and 5, the originator of a funds transfer pays the beneficiary of the originator's payment order at the time a payment order for the benefit of the beneficiary is accepted by the beneficiary's bank in the funds transfer and in an amount equal to the amount of the order accepted by the beneficiary's bank, but not more than the amount of the originator's order.

2. If payment under subsection 1 is made to satisfy an obligation, the obligation is discharged to the same extent discharge would result from payment to the beneficiary of the same amount in money, unless the payment under subsection 1 was made by a means prohibited by the contract of the beneficiary with respect to the obligation, the beneficiary, within a reasonable time after receiving notice of receipt of

the order by the beneficiary's bank, notified the originator of the beneficiary's refusal of the payment, funds with respect to the order were not withdrawn by the beneficiary or applied to a debt of the beneficiary, or the beneficiary would suffer a loss that could reasonably have been avoided if payment had been made by a means complying with the contract. If payment by the originator does not result in discharge under this section, the originator is subrogated to the rights of the beneficiary to receive payment from the beneficiary's bank under section 554.12404, subsection 1.

1. For the purpose of determining whether discharge of an obligation occurs under subsection 2, if the beneficiary's bank accepts a payment order in an amount equal to the amount of the originator's payment order less charges of one or more receiving banks in the funds transfer, payment to the beneficiary is deemed to be in the amount of the originator's order unless upon demand by the beneficiary the originator does not pay the beneficiary the amount of the deducted charges.

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

#### PART 5

#### MISCELLANEOUS PROVISIONS

Sec. 32. NEW SECTION. 554.12501 VARIATION BY AGREEMENT AND EFFECT OF FUNDS-TRANSFER SYSTEM RULE.

1. Except as otherwise provided in this article, the rights and obligations of a party to a funds transfer may be varied by agreement of the affected party.

2. "Funds-transfer system rule" means a rule of an association of banks governing transmission of payment orders by means of a funds-transfer system of the association or rights and obligations with respect to those orders, or to the extent the rule governs rights and obligations between banks that are parties to a funds transfer in which a federal

reserve bank, acting as an intermediary bank, sends a payment order to the beneficiary's bank. Except as otherwise provided in this article, a funds-transfer system rule governing rights and obligations between participating banks using the system may be effective even if the rule conflicts with this article and indirectly affects another party to the funds transfer who does not consent to the rule. A funds-transfer system rule may also govern the rights and obligations of parties other than participating banks using the system to the extent stated in section 554.12404, subsection 1, section 554.12405, subsection 4, and section 554.12507, subsection 3.

Sec. 33. NEW SECTION. 554.12502 CREDITOR PROCESS SERVED ON RECEIVING BANK -- SETOFF BY BENEFICIARY'S BANK.

1. As used in this section, "creditor process" means levy, attachment, garnishment, notice of lien, sequestration, or similar process issued by or on behalf of a creditor or other claimant with respect to an account.

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

3. If a beneficiary's bank has received a payment order for payment to the beneficiary's account in the bank, the following rules apply:

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

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

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

4. Creditor process with respect to a payment by the originator to the beneficiary pursuant to a funds transfer may be served only on the beneficiary's bank with respect to the debt owed by that bank to the beneficiary. Any other bank served with the creditor process is not required to act with respect to the process.

Sec. 34. NEW SECTION. 554.12503 INJUNCTION OR RESTRAINING ORDER WITH RESPECT TO FUNDS TRANSFER.

For proper cause and in compliance with applicable law, a court may restrain a person from issuing a payment order to initiate a funds transfer, an originator's bank from executing the payment order of the originator, or the beneficiary's bank from releasing funds to the beneficiary or the beneficiary from withdrawing the funds. A court may not otherwise restrain a person from issuing a payment order, paying or receiving payment of a payment order, or otherwise acting with respect to a funds transfer.

Sec. 35. NEW SECTION. 554.12504 ORDER IN WHICH ITEMS AND PAYMENT ORDERS MAY BE CHARGED TO ACCOUNT -- ORDER OF WITHDRAWALS FROM ACCOUNT.

1. If a receiving bank has received more than one payment order of the sender or one or more payment orders and other items that are payable from the sender's account, the bank may charge the sender's account with respect to the various orders and items in any sequence.

2. In determining whether a credit to an account has been withdrawn by the holder of the account or applied to a debt of the holder of the account, credits first made to the account are first withdrawn or applied.

Sec. 36. NEW SECTION. 554.12505 PRECLUSION OF OBJECTION TO DEBIT OF CUSTOMER'S ACCOUNT.

If a receiving bank has received payment from the receiving bank's customer with respect to a payment order issued in the name of the customer as sender and accepted by the receiving bank, and the customer received notification reasonably identifying the order, the customer is precluded from asserting that the receiving bank is not entitled to retain the payment unless the customer notifies the receiving bank of the customer's objection to the payment within one year after the notification was received by the customer.

Sec. 37. NEW SECTION. 554.12506 RATE OF INTEREST.

1. If, under this article, a receiving bank is to pay interest with respect to a payment order issued to the bank, the amount payable may be determined by agreement of the sender and receiving bank, or by a funds-transfer system rule if the payment order is transmitted through a funds-transfer system.

2. If the amount of interest is not determined by an agreement or rule as stated in subsection 1, the amount is calculated by multiplying the applicable federal funds rate by the amount on which interest is payable, and then multiplying the product by the number of days for which interest is payable. The applicable federal funds rate is the average of the federal funds rates published by the federal reserve bank of New York for each of the days for which interest is payable divided by three hundred sixty. The federal funds rate for any day on which a published rate is not available is the same as the published rate for the next preceding day for which there is a published rate. If a receiving bank that accepted a payment order is required to refund payment to the sender of

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

Sec. 38. NEW SECTION. 554.12507 CHOICE OF LAW.

1. The following rules apply unless the affected parties otherwise agree or subsection 3 applies:

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

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

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

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

3. A funds-transfer system rule may select the law of a particular jurisdiction to govern (i) the rights and obligations between participating banks with respect to payment orders transmitted or processed through the system, or (ii) the rights and obligations of some or all parties to a funds transfer any part of which is carried out by means of the system. A choice of law made pursuant to clause (i) is binding on participating banks. A choice of law made pursuant to clause (ii) is binding on the originator, other sender, or a receiving bank having notice that the funds-transfer system

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

4. In the event of inconsistency between an agreement under subsection 2 and a choice-of-law rule under subsection 3, the agreement under subsection 2 prevails.

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

Sec. 39. Section 554.1105, subsection 2, Code 1991, is amended to read as follows:

2. Where one of the following provisions of this chapter specifies the applicable law, that provision governs and a contrary agreement is effective only to the extent permitted by the law (including the conflict of laws rules) so specified:

Rights of creditors against sold goods. Section 554.2402.

Applicability of the Article on Bank Deposits and Collections. Section 554.4102.

Bulk transfers subject to the Article on Bulk Transfers. Section 554.6102.

Applicability of the Article on Investment Securities. Section 554.8106.

Perfection provisions of the Article on Secured Transactions; section. Section 554.9103.

Governing law in the Article on Funds Transfers. Section  
554.12507.

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ROBERT C. ARNOULD  
Speaker of the House

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MICHAEL E. GRONSTAL  
President of the Senate

I hereby certify that this bill originated in the House and  
is known as House File 150, Seventy-fourth General Assembly.

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JOSEPH O'HERN  
Chief Clerk of the House

Approved April 27, 1992

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TERRY E. BRANSTAD  
Governor

**HF 150**