
OLR Bill Analysis

sHB 6970

AN ACT CONCERNING ADOPTION OF AMENDMENTS TO THE UNIFORM COMMERCIAL CODE.

TABLE OF CONTENTS:

SUMMARY

NEW ARTICLE 12: CONTROLLABLE ELECTRONIC RECORDS (§§ 86-101)

Establishes rules for transactions involving a class of digital assets called “controllable electronic records,” including purchaser rights, how to get control of the asset, and discharge requirements

ARTICLE 9: SECURED TRANSACTIONS (§§ 36-85)

Makes changes to conform the UCC’s rules for security interests with the new Article 12, including how to use digital assets as collateral for loans (e.g., obtain control, perfect the interest, determine priority); specifies that chattel paper is the underlying right to payment and not the records evidencing it; differentiates between electronic and tangible money; adds a new way to get control of a deposit account

ARTICLE 7: DOCUMENTS OF TITLE (§§ 29 & 30)

Broadens and clarifies what qualifies as “control” for electronic documents of title to, among other things, account for distributed ledger technology, which uses multiple authoritative copies of an electronic record

ARTICLE 8: INVESTMENT SECURITIES (§§ 31-35)

Subjects controllable accounts, controllable electronic records, and controllable payment intangibles to Article 8 under specified circumstances; clarifies provisions in existing law on control and determining the applicable law

ARTICLES 2 & 2A: SALE OR LEASE HYBRID TRANSACTIONS (§§ 5-13)

Clarifies the scope of Articles 2 and 2A when transactions combine the sale or lease of goods with things like services (i.e. “bundled” or “hybrid” transactions)

ARTICLE 3: NEGOTIABLE INSTRUMENTS (§§ 14-17)

Specifies that a negotiable instrument may (1) include a law or forum selection clause and (2) be transmitted to a bank for deposit as an electronic check; specifies that destroying a check after remotely depositing it does not discharge the obligation

ARTICLE 4A: FUNDS TRANSFERS (§§ 18-26)

Specifies what is considered a security procedure when verifying a payment order (e.g., to detect error in the content of messages or to detect payment orders that are mistakenly transmitted)

ARTICLE 1: GENERALLY APPLICABLE TERMINOLOGY (§ 1)

Changes several definitions that apply throughout the UCC to, among other things, incorporate new or emerging technologies and resolve ambiguities

TRANSITIONAL RULES (§§ 93-101)

Establishes rules for transactions entered into before the bill's effective date; includes a rule that generally makes its provisions prospective in application and preserves the validity of existing transactions and the rights, duties, and interests flowing from them; generally applies Articles 9 and 12 to existing transactions

SUMMARY

This bill makes numerous changes to the Uniform Commercial Code (UCC), a set of rules governing commercial transactions (e.g., the sale of goods, leases, bank deposits and collections, and secured transactions). Many of the bill's provisions reflect emerging technologies.

The bill adds a new article on digital assets, which it terms "controllable electronic records" (CERs; Article 12). Examples of CERs include cryptocurrency, nonfungible tokens (NFTs), and other digital assets with embedded payment rights. The new Article 12, and corresponding changes to other articles, set rules for transactions involving these assets related to negotiability, transfer and payment rights, and secured lending.

The bill's other changes include such things as:

1. establishing rules for hybrid transactions under the UCC's provisions for the sale or lease of goods;
2. specifying that negotiable instruments may have (a) law or forum selection clauses or (b) their image and information transmitted to a bank for deposit as an electronic check;
3. specifically allowing for symbols, sounds, and biometrics to constitute a security procedure for funds transfers;
4. specifying that generally, for purposes of jurisdiction, choice of law, and recognition of interbranch letters of credit under UCC Article 5, a bank branch is located at the address shown in its document, and if there are multiple addresses, its location is the address from which the document was issued (by law for letters of credit, all bank branches are separate judicial entities and a

bank's location is the location of relevant branch);

5. redefining terms that apply to transactions on paper with definitions that also cover electronic documents, such as by broadening what is considered "signed" to ensure that electronic records have the same legal effect as tangible ones, and substituting "record" for "writing" where applicable in the UCC, to include both information inscribed on a tangible medium and that which is electronic or in another format; and
6. making numerous minor, technical, and conforming changes throughout the UCC and to other statutory provisions that refer to it.

Except as described below, the bill applies its expanded provisions (e.g., to Articles 9 and 12) to transactions and liens, even if created or entered into before January 1, 2026. But it does not affect an action, case, or proceeding that began before that date. It sets transition rules to allow secured parties to continue the enforceability of their interests when the bill's changes take effect and establish the priority of conflicting claims.

Additionally, in general, UCC rules are default rules, meaning that parties to a transaction can contractually agree to different terms, but absent an agreement, the UCC's rules apply.

EFFECTIVE DATE: January 1, 2026

NEW ARTICLE 12: CONTROLLABLE ELECTRONIC RECORDS (§§ 86-101)

Establishes rules for transactions involving a class of digital assets called "controllable electronic records," including purchaser rights, how to get control of the asset, and discharge requirements

Controllable Electronic Records (CERs)

The bill's new Article 12 governs CERs, which are records stored in an electronic medium that are subject to methods of control specified by the bill (see below). They do not include controllable accounts, controllable payment intangibles, deposit accounts, electronic copies of a record evidencing chattel paper, electronic documents of title, electronic money, investment property, or transferable records as

defined under certain federal or Connecticut law.

Acquisition and Purchase Rights

The bill gives a purchaser of a CER, controllable account, or controllable payment intangible all of the rights the transferor had or had power to transfer. A purchaser of a limited interest only obtains the extent of that interest. The bill specifies that unless stated, law other than the new Article 12 determines if a person acquires a right, and the right's extent, in a CER, account, or payment intangible.

However, it gives a purchaser that gets control of a CER, controllable account, or controllable payment intangible for value, in good faith, and without notice of a property right claim (a "qualifying purchaser"), its rights free of a claim of a property right. Under the bill, a financing statement filing under Article 9 is not notice of a property right claim.

The bill requires a qualifying purchaser to take a right to payment or performance, or other property interest evidenced by the CER (but not the controllable account or payment intangible) subject to a claim of that right or interest, unless a law outside of Article 12 provides otherwise.

It prohibits an action against a qualifying purchaser that is based on both its purchase of the CER, account, or payment intangible and a claim of a property right in another CER, account, or payment intangible, regardless of the theory involved (e.g., conversion, replevin, equitable lien).

Under the bill, to determine if a controllable account or controllable payment intangible purchaser is a qualifying purchaser, the purchaser gets control if it gets control of the CER that evidences the account or payment intangible.

Control of a CER

Under the bill, control of a CER exists if the electronic record, a record attached to or logically associated with it, or a system that records it, gives it (1) the power to receive substantially all of the CER's benefit and (2) exclusive power to prevent others from doing so and transfer control of the electronic record to another person or cause another person to get

control of another CER because of the record's transfer. The record or system also must allow for the person to readily identify itself as having those powers (e.g., by name, identifying number, cryptographic key, office, or account number).

The bill makes the power to receive or prevent others from receiving benefits exclusive even if it is shared with another person or the CER, record attached to or logically associated with the electronic record, or system where the electronic record is recorded, limits the electronic record's use or has a programmed protocol to make a change (e.g., transfer, loss of control, benefit modification).

Under the bill, a person does not share power with another person and it is not exclusive if the (1) person can exercise it only if the other person also does and (2) other person can exercise it alone or is the transferor to the person of an interest in the CER, or a controllable account or controllable payment intangible the CER shows.

The bill also sets rules for a person's control of a CER when another person has control on the person's behalf. Specifically, a person controls a CER if another person (but not the transferor of the interest) (1) controls the electronic record on the person's behalf and acknowledges that fact or (2) gets control on the person's behalf after acknowledging that it will do so.

The bill does not require a person to acknowledge that it has control on behalf of another. It also generally does not give the person that acknowledges that it has or will obtain control on behalf of another person a duty to the other person or a requirement to confirm the acknowledgement to any other person. The person can, however, agree to do so or other law may require it.

Obligation Discharge

The bill allows for an account debtor on a controllable account or controllable payment intangible to discharge its obligation by paying either (1) the person with control of the CER that evidences the account or payment intangible or (2) a person that used to have control of the

CER under certain circumstances. It prevents discharging an obligation by paying a person who formerly had control if the account debtor receives a notice that:

1. informs the account debtor that the CER's control was transferred and identifies the transferee in a reasonable way (e.g., name, identifying number, cryptographic key, office, or account number);
2. reasonably identifies the controllable account or controllable payment intangible;
3. is signed by either the person formerly in control or the person who is a transferee of control; and
4. includes a commercially reasonable method for the account debtor to pay the transferee.

Instead, the account debtor must pay as required in the notice to discharge its obligation.

Under the bill, the above notice is not effective:

1. unless the account debtor and the person with control of the CER before the notice was sent agreed in a signed record to a commercially reasonable way for the person to present reasonable proof of a transfer in control;
2. if there is an agreement between the account debtor and payment intangible seller that limits the debtor's duty to pay a person other than the seller that is governed by law that is not the bill's new Article 12; or
3. if the notice allows the account debtor to divide a payment, make less than the full amount of an installment or other periodic payment, or pay a portion of a payment by more than one method or to more than one person.

The bill requires the person giving the notice about the CER transfer

to timely present reasonable proof of the transfer if the account debtor requests it. The person must do this using the method in their agreement. Failing to do so allows the account debtor to discharge the obligation by paying a person that formerly had control of the CER.

Under the bill, reasonable proof of a transfer in CER control shows that the transferee has the power to (1) receive substantially all of the CER's benefit and prevent others from doing so and (2) transfer the receipt and prevention powers to another person.

The bill generally prohibits an account debtor from waiving or changing its rights under the bill's requirements for there to be an agreement between it and the person in control and no option for alternative payments, or for it to receive proof of a transfer. However, these provisions are subject to law outside of the new Article 12 that have a different rule for account debtors who are individuals and have an obligation that is mainly for personal, family, or household purposes.

Applicable Rules and Conflicts

Under the bill, if a conflict exists between Article 9's requirements for secured transactions, and those of the new Article 12, Article 9 controls. Additionally, a transaction subject to the new article is also subject to any other law that sets a different rule for consumers; a law or regulation regulating rates, charges, agreements, and practices for loans, credit sales, or other extensions of credit; and a consumer protection law or regulation.

Choice of Law

The bill generally applies the local law of a CER's jurisdiction to matters covered by the new Article 12. It allows for another jurisdiction's law to apply if there is an effective agreement for it to do so for a CER that evidences a controllable account or controllable payment intangible in a matter involving an account debtor's discharge of an obligation (see above). The bill specifies that the local law of a CER's jurisdiction applies to matters covered by the new Article 12 even if they, or the transactions relating to them, do not relate to the jurisdiction.

The bill sets the following hierarchy for determining a CER's jurisdiction, but in each case the CER (or record attached to or logically associated with it) or system rules must be readily available for review:

1. the CER or record may expressly state the CER's jurisdiction for Article 12 purposes, making it the CER's general jurisdiction;
2. the system that has the recorded CER may have rules that expressly state a particular jurisdiction for the CER for Article 12 purposes, making it also the CER's general jurisdiction;
3. the CER or record expressly states the jurisdiction whose governing law applies; or
4. the system that has the recorded CER may have rules that expressly state the CER's jurisdiction.

It designates the District of Columbia as a CER's jurisdiction if the above provisions do not apply. If the bill's new Article 12 provisions are not in effect in the District of Columbia, without material changes, the jurisdiction remains the District of Columbia and as if they were in effect. (The Council for the District of Columbia adopted new Article 12 provisions in 2024.)

Under the bill, the rights of purchasers are governed by the applicable law at the time of purchase.

ARTICLE 9: SECURED TRANSACTIONS (§§ 36-85)

Makes changes to conform the UCC's rules for security interests with the new Article 12, including how to use digital assets as collateral for loans (e.g., obtain control, perfect the interest, determine priority); specifies that chattel paper is the underlying right to payment and not the records evidencing it; differentiates between electronic and tangible money; adds a new way to get control of a deposit account

Definitions

The bill adds and adjusts several definitions in the UCC's article on secured transactions largely to conform with the bill's other reforms, such as including rules for CERs.

First, the bill modifies its definition of "chattel paper" to refer to a right to a payment of a monetary obligation secured by goods evidenced

by a record, as opposed to the record or records that evidence it. It also includes a right to payment from a “hybrid” lease transaction (see Article 2A, below), where a lessee owes under a lease agreement for the use of specific goods, also evidenced by a record.

Related to CERs, a “controllable account” is an account and a “controllable payment intangible” is a payment intangible, both of which evidenced by a CER that provides that the account debtor agrees to pay the person with control of the CER. Conforming, it includes CERs in the existing definition of “general intangible,” which is generally any personal property that is not included in other defined collateral.

The bill incorporates a definition of “money” into Article 9 that is based on its new general UCC definition for the term (see Article 1, *Money*, below) and differentiates between money in an electronic versus a tangible form. It excludes deposit accounts and money in electronic form that cannot be controlled in the way the article specifies.

Lastly, it designates an “assignee” as generally a person (1) in whose favor a security interest that secures an obligation is created or provided for in a security agreement or (2) to which an account, chattel paper, payment intangible, or promissory note was sold. Conversely, an “assignor” is a person that (1) under a security agreement, creates or provides for a security interest that secures an obligation or (2) sells an account, chattel paper, payment intangible, or promissory note. These terms include, as applicable, the transferee of a security interest from a secured party or the secured party that transfers a security interest.

Attachment and Enforceability

Under existing law, a security interest generally attaches to collateral when it is enforceable against the debtor with respect to the collateral. And this interest is enforceable if (1) value was given; (2) the debtor has rights in the collateral or can transfer rights in it to a secured party; and (3) a security agreement, certificated security, or possession gives the secured party control. The bill includes controllable accounts, CERs, controllable payment intangibles, and electronic money in the types of collateral that can be shown to be enforceable by a debtor’s security

agreement that gives the secured party control. Under the bill, for chattel paper, the secured party must have possession and control under the security agreement.

The UCC also generally allows a security agreement to create or give a security interest in after-acquired collateral, except for consumer goods or a commercial tort claim. The bill specifies that an interest can attach to consumer goods as proceeds or comingled goods, commercial tort claims as proceeds, or under an after-acquired property clause for property that is proceeds of either.

Secured Party's Duties and Rights

The UCC establishes certain requirements and rights for secured parties in possession or control of collateral, such as using reasonable care to preserve it. Current law allows, absent an agreement with the debtor otherwise, a secured party in possession or control of electronic documents of title, investment property, deposit accounts, electronic chattel paper, or letter of credit rights, to hold certain proceeds as additional security and create a security interest in the collateral. It requires the secured party to apply money or funds from the collateral to reduce the debtor's obligation, unless it is given to the debtor. The bill also applies these rights and responsibilities to secured parties in possession or control of CERs or electronic money.

If there is no remaining secured obligation, current law requires the secured party, other than a buyer, to take certain actions within 10 days after receiving a request from the debtor. For electronic chattel paper and electronic documents, this generally involves (1) communicating or giving the authoritative copy of the chattel paper or documents to the debtor or a person the debtor designates and (2) making it feasible for the debtor or designee to make copies or changes to identified assignees. The bill, in these cases, instead requires the secured party to transfer control of the electronic copy or document to the debtor or designee. It applies the same requirements to secured parties with control of electronic money or a CER (but not a buyer of a controllable account or controllable payment intangible).

Control

Under the UCC, control is an important way to perfect a security interest for certain types of collateral. The bill generally (1) establishes rules for obtaining control over a CER (see also new Article 12, above), chattel paper, and electronic money and (2) adds a method of control for deposit accounts.

CER. Under the bill, a secured party has control of a CER if the electronic record, a record attached to or logically associated with it, or a system that records it gives the party (1) the power to receive substantially all of the CER's benefit and (2) exclusive power to prevent others from doing so and transfer control to another person or cause another person to get control of another CER because of the record's transfer (see New Article 12, *Control of a CER*, above). A secured party has control of a controllable account or controllable payment intangible if the secured party controls the CER that evidences it.

Chattel Paper. The bill revises the current rule for control of chattel paper generally to align it with its revised definition of the term. It does this by specifying that the control is (1) by a purchaser rather than a secured party; (2) of an authoritative electronic copy of a record evidencing chattel paper (instead of the chattel paper itself); and (3) shown through a system used for the assignment, rather than transfer, of interests.

Under existing law, a system shows control if, among other things, the record is created, stored, and assigned in a way that a single unique, identifiable, and unalterable authoritative copy of the record identifies the purchaser as the assignee. Under the bill, a system also shows that a purchaser controls an authoritative electronic copy of a record evidencing chattel paper if the copy, or a record attached to or logically associated with it, or a system that records it:

1. allows the purchaser to readily identify (a) each electronic copy as either authoritative or nonauthoritative and (b) itself as the assignee (e.g., by name, identifying number, cryptographic key, office, or account number) and

2. gives the purchaser exclusive power to (a) prevent others from adding or changing an identified assignee and (b) transfer control of the copy (if a person has these powers, the bill presumes they are exclusive).

This exclusive power exists regardless of whether the (1) power is shared with another person or (2) authoritative electronic copy, related record, or recording system limits the copy's use or has a programmed protocol to cause a change (e.g., transfer or loss of control). A person's power is not exclusive and not shared with another if the (1) power can only be exercised if it is also exercised by the other person and (2) other person can exercise it on its own or is the transferor to the purchaser of an interest in the chattel paper.

Lastly, a purchaser can control an authoritative electronic copy of a record evidencing chattel paper if another person, but not the transferor to the purchaser of the chattel paper interest, (1) has control of the copy on the purchaser's behalf and acknowledges that fact or (2) gets control of the copy after acknowledging that it will do so on the purchaser's behalf.

Electronic Money. The bill specifies two ways in which a person has control of electronic money. First, it deems a person to have control if the money, a record attached to or logically associated with it, or a system in which the money is recorded gives the person (1) power to receive substantially all of the money's benefit and (2) exclusive power to prevent others from doing so and to transfer control of it to another person or have another person get control of other electronic money from transferring it. If a person has these powers, they are presumed to be exclusive. The money, record, or system must enable the person to readily identify itself as having those powers (e.g., by name, identifying number, cryptographic key, office, or account number).

Under the bill, power is exclusive even if the (1) money, record, or system limits the money's use or has a programmed protocol to or (2) power is shared with another person. Power is not shared, and thus the power not exclusive, if the person can only exercise it with another

person that can exercise it on its own or is the transferor of the money.

Second, a person has control of electronic money if another person, but not the transferor to the person with the money interest, (1) has control of the money on behalf of the person and acknowledges this fact or (2) gets control of the money after acknowledging that it will get it on the person's behalf.

Deposit Accounts. The bill establishes a fourth way for a secured party to have control of a deposit account. Currently, the party has control if (1) it is the bank maintaining the account; (2) the debtor, secured party, and bank agree that the bank will comply with the secured party's instruction about disposition of funds; or (3) the secured party becomes the bank's customer for the account. Under the bill, a secured party also has control if a person other than the debtor (1) controls the deposit account and acknowledges that it has control on the secured party's behalf or (2) gets control of the account after acknowledging that it will do so for the secured party.

Control for Another. The bill specifies that a person with control of a deposit account, chattel paper, or electronic money on behalf of another is not required to acknowledge this fact. And if a person acknowledges that it has or will get control on behalf of another person, the person has no duty to the other person and is not required to confirm the acknowledgement to any other person, except as otherwise agreed or required by other law.

Perfection and Priority

Perfection is the process of publicly establishing a security interest in collateral to gain priority, which is the order of preference given to different interests or rights. Essentially, it puts parties on notice about the security interest. The method of perfection for a security interest depends on the type of collateral involved. Once "perfected," a creditor is in a position to claim or repossess collateral if the debtor defaults.

Perfection. The bill allows for a security interest in controllable accounts, CERs, and controllable payment intangibles to be perfected by

control, as is the case under existing law for things like investment property, deposit accounts, and electronic documents. A security interest in electronic money is perfected only by control. For these new asset types, perfection occurs when the secured party gets control and the interest stays perfected only while the secured party keeps control.

Under existing law, a security interest in chattel paper may be perfected by filing or through having and keeping control. Instead of control in the chattel paper, the bill allows a secured party to perfect this interest by (1) taking possession of each authoritative tangible copy of the record evidencing the chattel paper and (2) getting control of each authoritative electronic copy of the electronic record that evidences it. Perfection occurs when the secured party takes possession and obtains control and it remains perfected only if the party keeps possession and control. For an authoritative tangible copy held by a person other than the debtor, there must be a signed record from the person acknowledging that it has the copy for the secured party's benefit.

The bill allows a security interest in controllable accounts, CERs, and controllable payment intangibles to be perfected by filing (i.e. submitting a financing statement to the filing office), but it does not require it if perfection occurs through control.

The UCC sets rules for when a perfected security interest ends. The bill applies these rules to chattel paper, controllable accounts, CERs, and controllable payment intangibles, as defined under the bill. Specifically, if the interest is perfected under the law of the debtor's location, perfection ends (1) when it would have ended under that law, (2) four months after the debtor's location changes to another jurisdiction, or (3) one year after the collateral is transferred to a person that becomes the debtor and is located in another jurisdiction. For interests perfected under another jurisdiction's law (e.g., that of the collateral, bank, issuer, or intermediary), the interest ends (1) when it would have ended under that law or (2) four months after changing to another jurisdiction.

Priority. Under the bill, a security interest in a controllable account, CER, or controllable payment intangible held by a secured party with

control of the account, record, or payment intangible has priority over a conflicting interest held by a secured party without control. The bill does not limit the rights of a qualifying purchaser of a controllable account, CER, or controllable payment intangible; the holder takes priority over earlier, even perfected, security interests, to the extent that new Article 12 allows. It similarly does not limit the rights of or impose a liability on a person if Article 12 protects against asserting a claim.

For chattel paper, a purchaser has priority over a security interest in chattel paper if it (1) takes possession of each authoritative tangible copy of the record evidencing it and (2) gets control of each authoritative electronic copy of the same. Current law requires either taking possession or obtaining control of the chattel paper. The bill retains the associated requirements for taking possession and getting control in good faith, in the ordinary course of business, for new value, and without knowledge of another party.

The bill specifies that an electronic money transferee takes the money free of a security interest if it gets control of the money without colluding with the debtor to violate the secured party's rights.

The bill expands on existing law's rules for when a buyer acquires an asset free from a claim by another party ("take-free" rules), meaning that it would have a priority interest over that other party, generally to apply to the bill's new covered assets which includes its revised definition of chattel paper. In each case, the buyer must provide value and have no knowledge of the existing security interest before its perfection.

Under the bill, a buyer of chattel paper takes-free if it gets (1) each authoritative tangible copy of the record evidencing it and (2) control of each authoritative electronic copy of the record evidencing it, if it can be controlled as required by law. Buyers of electronic documents, CERs, controllable accounts, or controllable payment intangibles take-free if they get control. For chattel paper, controllable accounts, and controllable payment intangibles, the buyer cannot be a secured party for the rule to apply.

Choice of Law. For CERs, the bill generally makes the local law of a

CER's jurisdiction (see New Article 12, *Choice of Law*, above) also the governing jurisdiction for perfection, the effect of the CER being perfected or unperfected, and priority of a security interest in a CER and in a controllable account or controllable payment intangible that the CER evidences. But it is the law of where a debtor is located that applies when perfection occurs by filing or the sale of a controllable payment intangible automatically perfects it.

The bill establishes specific rules for determining the law that applies for perfection and priority of a security interest in chattel paper, including the effect of being perfected or unperfected. First, it sets the local law of the chattel paper's jurisdiction as the governing law when the chattel paper is evidenced (1) only by an authoritative electronic copy of it or (2) an authoritative electronic and tangible copy of it. This applies regardless of whether the transaction relates to the chattel paper's jurisdiction. The following rule hierarchy also applies for determining jurisdiction, but each method must be expressly stated and readily available for review:

1. the authoritative electronic copy of the record evidencing chattel paper (or a record attached to or logically associated with it) may set the jurisdiction that governs perfection and priority or other UCC provisions;
2. if the record has no stated jurisdiction, then the rules of the system in which the authoritative electronic record is recorded set the chattel paper's jurisdiction for perfection and priority or other UCC purposes;
3. if the record or system does not designate the jurisdiction for perfection and priority or UCC purposes, then the chattel paper's jurisdiction is that which is stated in the authoritative electronic copy (or a record attached to or logically associated with it); and
4. if none of the above apply, then it is the jurisdiction set in the rules of the system in which the authoritative electronic record is recorded that governs.

For chattel paper without a designated jurisdiction in the relevant authoritative electronic copy (or other record) or system, the jurisdiction of the debtor's location applies. And like security interests in other assets, the local law of the debtor's jurisdiction governs perfection of chattel security interests by filing. For chattel paper not evidenced by an authoritative electronic copy but with an authoritative tangible copy instead, the jurisdiction that governs is the local law of the tangible copy's location.

The bill also specifies that, regardless of whether the transaction has a connection to the jurisdiction involved, the local law of the following governs security interest perfection and priority:

1. bank's jurisdiction for a deposit account and
2. issuer's, securities intermediary's, or commodity intermediary's jurisdiction for certain investment property that is not subject to automatic perfection or a filing.

Third-Party Rights

Existing law generally allows an account debtor to discharge its obligations by paying the assignor until it receives a notice of further assignment. It requires a secured party, as the assignee, to give the account debtor that received this notice a release of further payment obligation to it within 10 days after receiving a request for one from the account debtor. The bill applies this 10-day response requirement to CER transfers (see New Article 12, *Obligation Discharge*, above).

The bill also specifies that the law's (1) general rule of an account debtor being able to discharge its obligation by paying the assignor until it receives a further assignment notice does not apply to controllable accounts or controllable payment intangibles and (2) restrictions on assigning promissory notes or including certain limiting terms in them apply to negotiable instruments that evidence chattel paper.

Default

Preserving Collateral. The bill applies rights and duties for keeping and preserving collateral after a default for secured parties in possession

of electronic money, controllable accounts, CERs, or controllable payment intangibles as the law already does for these parties in possession of electronic documents of title, deposit accounts, investment property, records evidencing chattel paper, and letter of credit rights.

Notices of Collateral Disposition. Existing law sets out rules for a secured party to follow to dispose of collateral securing an obligation, including specifying the contents of the notice that must be sent beforehand to the debtor or obligor involved, either generally or involving a consumer-goods transaction. (The consumer-goods notice can be instead of the general one, but not vice versa.)

The bill includes in the consumer-goods notice the ability for the secured party to also use an electronic record to explain to the debtor the amount owed, instead of only in writing. It allows the secured party to use electronic communication as a method for the debtor to communicate with it, instead of only by telephone or in writing, for the debt explanation or information about the sale.

The bill further includes specific instructions for secured parties to follow when preparing the general or consumer-goods notices.

Duties and Liability

Existing law sets out when a secured party owes no duty or has no liability to a debtor, obligor, or a secured party or lienholder with a filed financing statement based on its secured party status (e.g., the party does not know the debtor or obligor status and the person's identity). The bill makes a secured party owe a duty or liable under certain circumstances for collateral that is a controllable account, CER, or controllable payment intangible. Specifically, the duty is owed or liability imposed when the:

1. person is a debtor or obligor and
2. secured party knows that the collateral, a record attached to or logically associated with it, or the system in which it is recorded, does not provide certain specified information (i.e. the person's debtor or obligor status, the person's identity, and how to

communicate with the person).

It applies at the later of the time the (1) secured party gets control of the collateral or (2) security interest attaches to it.

ARTICLE 7: DOCUMENTS OF TITLE (§§ 29 & 30)

Broadens and clarifies what qualifies as "control" for electronic documents of title to, among other things, account for distributed ledger technology, which uses multiple authoritative copies of an electronic record

Control of Electronic Documents of Title

Under existing law, a person controls an electronic document of title (e.g., a bill of lading, warehouse receipt, or order to deliver goods) if a system used to evidence the transfer of interests in the document reliably establishes that person as that which was issued or transferred it. The bill adds (1) a second way for a system to meet this requirement and (2) control by another person, other than the transferor, that has control on the person's behalf.

System Establishes Control. Currently, a system shows a person has control of an electronic document of title if, among other things, the document is created, stored, and assigned in a way that a single unique, identifiable, and unalterable authoritative copy identifies the person in control.

Under the bill, a system can also show that a person controls an electronic document of title if an authoritative electronic copy of the document, a record attached to or logically associated with it, or a system that records it:

1. allows the person to readily identify (a) each electronic copy as either authoritative or nonauthoritative and (b) itself as the person which was issued or transferred each authoritative copy (e.g., by name, identifying number, cryptographic key, office, or account number) and
2. gives the person exclusive power to (a) prevent others from adding or changing the person to which was issued or transferred each authoritative copy and (b) transfer control of

each authoritative copy (if a person has these powers, the bill presumes they are exclusive).

This exclusive power is deemed to exist regardless of whether the (1) authoritative electronic copy, related record, or recording system limits the document of title's use or has a programmed protocol to cause a change (e.g., transfer or loss of control) or (2) power is shared with another person. But this exclusivity for situations in which power is shared with another does not apply if the (1) power can only be exercised if it is also exercised by the other person and (2) other person can exercise it on its own or is the transferor to the person of an interest in the document of title (but see *Control for Another*, below).

Control for Another. The bill also deems a person to have control of an electronic document of title when another person, other than the transferor to the person with an interest in the document, (1) controls it and acknowledges the control on behalf of the person or (2) gets control of it after acknowledging that it will do so on the person's behalf.

The bill specifically does not require a person with control to acknowledge its control on behalf of another person. And if a person acknowledges that it has or will get that control, the person has no duty to the other person and does not need to confirm the acknowledgement to any other person, unless it agrees to do so or a law other than the bill's updated Articles 7 or 9 requires it.

ARTICLE 8: INVESTMENT SECURITIES (§§ 31-35)

Subjects controllable accounts, controllable electronic records, and controllable payment intangibles to Article 8 under specified circumstances; clarifies provisions in existing law on control and determining the applicable law

Financial Assets

The bill allows a controllable account, CER or controllable payment intangible to be a financial asset and subject to certain provisions of Article 8 on investment securities to the extent that the securities intermediary that holds it agrees with the person entitled under the account, record, or payment intangible that it will be treated as a "financial asset" governed by Article 8.

Control

Existing law sets out the three ways in which a purchaser can have control of a security entitlement (i.e. the rights and property interest of a financial asset), one of which is when another person has control and acknowledges that it has control on the purchaser's behalf (or acknowledges that it will obtain control and then does so). The bill specifies that the other person excludes the transferor to the purchaser.

Under the bill, if a person acknowledges that it has or will get control, the person has no duty to the purchaser and does not need to confirm the acknowledgement to any other person, unless it agrees to do so or a law other than the bill's updated Articles 8 or 9 require it. It also does not require a person with control on behalf of another to acknowledge that fact.

Choice of Law

State law sets the extent to which local law of an issuer's or securities intermediary's jurisdiction applies. For example, it sets the governance for things like security validity, security entitlement acquisition, and certain issuer or security intermediary rights and duties. The bill specifies that the local law of an issuer's or securities intermediary's jurisdiction applies to these matters or transactions even if they do not relate to the jurisdiction.

ARTICLES 2 & 2A: SALE OR LEASE HYBRID TRANSACTIONS (§§ 5-13)

Clarifies the scope of Articles 2 and 2A when transactions combine the sale or lease of goods with things like services (i.e. "bundled" or "hybrid" transactions)

The bill applies UCC Articles 2 and 2A, which govern the sale of or lease of goods, to single transactions involving (1) a sale or lease of goods and (2) the provision of services; a lease or sale (as applicable) of other goods; or a sale, lease, or license of other property ("hybrid sales" or "hybrid leases").

Specifically, under the bill, for hybrid sales transactions, Article 2 applies if the components of the transaction that involve goods predominates, but it allows application of other law to the parts that do

not relate to the sale of goods in appropriate circumstances. If the transaction's sale of goods components do not predominate, then only Article 2's provisions that relate primarily to the sale of goods parts apply.

The bill applies the same rules for hybrid lease transactions, with two exceptions involving finance leases. All finance lease transactions are subject to Article 2A's provision on electronic records in electronic contracts and its provision on lien priority involving attachment or levy applies to a lessee's promises that are consideration for the right to possess and use the leased goods.

ARTICLE 3: NEGOTIABLE INSTRUMENTS (§§ 14-17)

Specifies that a negotiable instrument may (1) include a law or forum selection clause and (2) be transmitted to a bank for deposit as an electronic check; specifies that destroying a check after remotely depositing it does not discharge the obligation

Under the UCC, when a negotiable instrument (e.g., a check) is issued it is binding on the maker or drawer. The bill expands what constitutes an "issue" (the first delivery of an instrument by the maker or drawer) by including, if agreed by the payee, a first transmission to the payee of an image of an item and information about that item that enables the depository bank to collect the item by transferring or presenting under federal law an electronic check. This includes the practice of sending an image of a check to the payee.

The law generally prohibits a negotiable instrument from stating another required undertaking or instruction by the person promising payment. Exceptions to this include things like having power to protect collateral securing payment or realize on or dispose of collateral. The bill also allows the instruments to include, without affecting their negotiability, a (1) term specifying the law that applies to the instrument or (2) promise to resolve a dispute about it in a specific forum.

The UCC provides several ways for a person entitled to enforce an instrument to relieve the person required to pay it from that obligation, including by intentionally and voluntarily destroying the instrument. The bill specifies that the obligation of someone to pay is not relieved when a check is destroyed in the process of its information being

extracted and an image of it being made, if the information and image are transmitted for payment (e.g., through remote deposit).

ARTICLE 4A: FUNDS TRANSFERS (§§ 18-26)

Specifies what is considered a security procedure when verifying a payment order (e.g., to detect error in the content of messages or to detect payment orders that are mistakenly transmitted)

The bill specifies what may be used as a “security procedure” to verify information or detect errors about a payment order as part of a funds transfer.

Under current law, the agreement between the customer and a receiving bank may require using algorithms or other codes, identifying words or numbers, encryption, callback procedures, or similar security devices. The bill adds symbols, sounds, and biometrics as possible security measures. It specifies that requiring a payment order to be sent from a known email or IP address or telephone number is not a security procedure alone, as is the case under existing law for comparing a signature with a customer’s authorized specimen signature.

ARTICLE 1: GENERALLY APPLICABLE TERMINOLOGY (§ 1)

Changes several definitions that apply throughout the UCC to, among other things, incorporate new or emerging technologies and resolve ambiguities

The bill changes several definitions that apply throughout the UCC. These definitions and rules, as those in current law, do not apply if contrary or more specific ones are found in other parts of the UCC.

Conspicuous

The bill broadens what constitutes “conspicuous” written, displayed, or presented terms by basing it on the totality of the circumstances, rather than specifying specific text formats that meet the standard.

Money

Currently under the UCC, money is a medium of exchange that a domestic or foreign government has adopted or authorized. The bill excludes from this electronic records that are mediums of exchange (e.g., cryptocurrency) recorded or transferable in a system that existed and operated for the medium before a government authorized or adopted it.

The bill defines “electronic” as relating to technology having electrical, digital, magnetic, optical, electromagnetic, or similar capabilities.

Person

The bill expands what is considered a “person” under the UCC to include a “protected series” of an entity (e.g., of a limited liability company) if it is created under law other than the UCC that limits, or limits under certain conditions, a creditor of the entity or of another protected series of the entity from satisfying a claim from the protected series’ assets. Thus, it treats a protected series as being among other things, a seller or buyer, lessor or lessee, or a debtor.

Sign

The bill expands the definition of “sign” and related terms to apply to both signatures in writing, as under current law, but also to electronic signatures. Under the bill, something that is “signed” must have present intent to authenticate or adopt a record either by executing or adopting a tangible symbol or by attaching to or logically associating with the record an electronic symbol, sound, or process. Throughout the UCC, the bill replaces references to “authenticated” with “signed” to incorporate the expanded definition which encompasses the later term.

TRANSITIONAL RULES (§§ 93-101)

Establishes rules for transactions entered into before the bill’s effective date; includes a rule that generally makes its provisions prospective in application and preserves the validity of existing transactions and the rights, duties, and interests flowing from them; generally applies Articles 9 and 12 to existing transactions

Transactions

The bill deems transactions validly entered into before January 1, 2026, and their associated rights, duties, and interests, still valid after that date. They can be terminated, completed, consummated, or enforced as required or allowed by law as would occur if the bill did not pass.

However, beginning on that January date, Articles 9 and 12, as changed by the bill, apply to transactions, liens, or other property interests, regardless of when they were entered into, created, or

acquired. The bill specifically keeps valid transactions, liens, and property interests entered into, created, or transferred before January 1, 2026, that were not subject to the UCC at the time but are subject to the bill's Article 9 or 12 provisions. Under the bill, these existing transactions, liens, or interests can be terminated, completed, consummated, or enforced or required as allowed by the bill or the law that would apply if the bill did not pass.

Security Interests

Under the bill, an enforceable security interest perfected immediately before January 1, 2026, remains a perfected interest if, on that date, the bill's enforceability and perfection requirements are met without needing to take additional action. If this is not the case, then the security interest:

1. is perfected only until the earlier of January 1, 2027, or when the interest would have ended under the law in effect when it was created;
2. remains perfected only if the bill's perfection requirements are met before those same dates; and
3. remains enforceable only if it meets Article 9's enforceability requirements before 2027.

An unperfected security interest that is enforceable immediately before January 1, 2026, stays enforceable until January 1, 2027, and remains enforceable after that date if it meets Article 9's enforceability requirements before 2027. It becomes perfected on January 1, 2026, if the bill's perfection requirements are met by that date, or otherwise when perfection requirements are met.

Under the bill, filing a financing statement before January 1, 2026, perfects a security interest on that date if the filing also meets the bill's perfection requirements. Similarly, taking an action before that 2026 date makes a security interest enforceable on that date if the action meets the bill's enforceability requirements.

The bill deems an action (other than filing a financing statement) that occurs before January 1, 2026, and would have perfected the security interest had the interest become enforceable before that date, effective to perfect a security interest that attaches under the bill before January 1, 2027. An attached security interest is then unperfected on that 2027 date unless it becomes perfected before.

Conflicting Claims

The bill sets rules for determining the priority of conflicting claims to collateral and Article 12 property during the transitional period.

For collateral, if the priority of claims is set before January 1, 2026, then the provisions of Article 9, as they existed at that time, apply. On January 1, 2027, if priorities set by the bill's revised Article 9 change those that existed before January 1, 2026, priorities to claims of Article 12 property and electronic money established before that 2026 date end.

For Article 12 property, when revised Article 9's priority rules do not apply, the bill sets the following rules:

1. for claims priorities set before January 1, 2026, law other than Article 12 determines priority and
2. if the bill's priority rules change priorities set before January 1, 2026, the claims priorities set before that date no longer apply on January 1, 2027.

COMMITTEE ACTION

Judiciary Committee

Joint Favorable Substitute

Yea 39 Nay 0 (04/10/2025)