



Ohio Legislative Service Commission

Bill Analysis

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Sub. H.B. 490*

128th General Assembly

(As Reported by H. Financial Institutions, Real Estate, & Securities)

Reps. Dyer and Coley, Stebelton, Walter, Bacon, Murray, Garland, Book, Snitchler

BILL SUMMARY

- Adopts the revisions to the general provisions and documents of title portions of the Uniform Commercial Code ("UCC") that were recommended by the National Conference of Commissioners on Uniform State Laws.
- Expands R.C. Chapter 1307. to cover electronic documents of title, and makes conforming changes throughout the UCC to accommodate electronic documents of title.
- Defines the manner in which a person has control of an electronic document of title, and incorporates perfection by control of such a document into the UCC – Secured Transactions Law.
- Permits a document of title to be issued in alternative mediums.
- Permits only tangible bills of lading to be issued in a set of parts.
- Defines rules to negotiate an electronic document of title.
- Renames "warehouseman" as "warehouse."
- Removes the ability of a warehouse to limit damages by setting forth a specific liability per article or item, or value per unit of weight, beyond which the warehouse is not liable.

* This analysis was prepared before the report of the House Financial Institutions, Real Estate, and Securities Committee appeared in the House Journal. Note that the list of co-sponsors and the legislative history may be incomplete.

- Grants a warehouse a lien of the goods covered by a storage agreement or the proceeds thereof, in addition to the lien the warehouse may have on goods in its possession.
- Makes a warehouse's lien on household goods for charges and expenses in relation to the goods also effective against all persons if the depositor was the legal possessor of the goods at the time of deposit.
- Grants a carrier a lien on the proceeds of the goods in its possession.
- Allows an obligation to be issued as subordinated to performance of another obligation of the person obligated, and allows a creditor to subordinate its right to performance of an obligation by agreement with either the person obligated or another creditor of the person obligated.
- States that R.C. Chapters 1301. and 1307., with some exceptions, modify, limit, and supersede the federal "Electronic Signatures in Global and National Commerce Act."

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CONTENT AND OPERATION

Overview of the bill

The bill adopts the revisions to the general provisions (R.C. Chapter 1301.) and documents of title (R.C. Chapter 1307.) portions of the Uniform Commercial Code (UCC) that were recommended by the National Conference of Commissioners on Uniform State Laws and to make related changes in the UCC and the Revised Code. The bill, to the extent possible, attempts to make the language in R.C. Chapters 1301. and 1307. identical to the language recommended by the Council (see **COMMENT**). As a result, the bill makes numerous non-substantive as well as substantive changes to Ohio law. This analysis addresses only the substantive changes made by the bill.

The bill renumbers the sections within R.C. Chapters 1301. and 1307. of the Revised Code. Both chapters under the bill use a numbering system analogous to the numbering system of the National Conference of Commissioners on Uniform State Laws for those sections that are part of the UCC.¹ The digits to the right of the decimal point are sequential and not supplemental to any preceding Revised Code section. (R.C. 1301.101(C) and 1307.101(B).) See Table I and Table II for the renumbering of the sections.

The bill makes section captions part of R.C. Chapters 1301. and 1307. (R.C. 1.01 and 1301.107). Thus, the bill adds section captions to all of the sections in those chapters that are part of the UCC (see R.C. Chapters 1301. and 1307., as renumbered by the bill).

The bill applies to transactions entered into on or after the bill's effective date (Section 3).

¹ Current R.C. 1301.16, 1301.18, and 1301.21 are not considered part of the UCC, and the bill relocates those sections to other chapters of the Revised Code.

Changes to R.C. Chapter 1301. – UCC General Provisions

The bill permits R.C. Chapters 1301., 1302., 1303., 1304., 1305., 1307., 1308., 1309., and 1310. to be cited as the "Uniform Commercial Code." Additionally, the bill permits R.C. 1301.101 to 1301.310 to be cited as "Uniform Commercial Code – General Provisions." (R.C. 1301.101(A) and (B).)

Applicability of the UCC and R.C. Chapter 1301.

Under the bill, the UCC – General Provisions apply to a transaction to the extent that it is governed by the rest of the UCC (R.C. 1301.102).

Definitions--UCC – General Provisions

Under continuing law, the definitions found in R.C. 1301.01 (renumbered R.C. 1301.201 by the bill), apply to the remainder of the UCC unless the context otherwise requires and subject to additional definitions contained in the UCC. The bill further states that unless the context otherwise requires, words or phrases defined in this section, or in the additional definitions contained in the UCC that apply to particular chapters or sections within the UCC, have the meanings stated. (R.C. 1301.01(A), renumbered R.C. 1301.102(A) and (B) by the bill.)

The bill adds or substantively modifies the definitions of the following terms:

--Agreement: under current law, "agreement" means the bargain of the parties in fact as found in their language or by implication from other circumstances, including course of dealing, usage of trade, or course of performance as provided in the UCC. Whether an agreement has legal consequences is determined by the UCC, if applicable; otherwise by the law of contracts. The bill distinguishes the definition of an agreement from a "contract" and removes the determination concerning whether an agreement has legal consequences. (R.C. 1301.01(C), renumbered R.C. 1301.201(B)(3) by the bill.)

--Bank: the bill expands the definition of bank, which is currently defined as any person engaged in the business of banking, to specifically include a savings bank, savings and loan association, credit union, and trust company (R.C. 1301.01(D), renumbered R.C. 1301.201(B)(4) by the bill).

--Bearer: under current law, "bearer" means the person in possession of an instrument, document of title, or certificated security payable to bearer or endorsed in blank. The bill expands this definition to include a person in control of a negotiable electronic document of title and specifies that an instrument must be a negotiable instrument. (R.C. 1301.01(E), renumbered R.C. 1301.201(B)(5) by the bill.)

--Bill of lading: under current law, "bill of lading" means a document evidencing the receipt of goods for shipment issued by a person engaged in the business of transporting or forwarding goods, and includes an airbill. "Airbill" means a document serving for air transportation as a bill of lading does for marine or rail transportation, and includes an air consignment note or air waybill. The bill removes the specific inclusion of "airbill" in the definition, and excludes a warehouse receipt from the definition. The bill also applies the definition to a person who directly or indirectly engages in such activities. (R.C. 1301.01(F), renumbered R.C. 1301.201(B)(6) by the bill.)

--Conspicuous: under current law, a term or clause is "conspicuous" when it is so written that a reasonable person against whom it is to operate ought to have noticed it. A printed heading in capitals (as: NONNEGOTIABLE BILL OF LADING) is "conspicuous." Language in the body of a form is "conspicuous" if it is in larger or other contrasting type or color. In a telegram, any stated term is "conspicuous." Whether a term (or clause, included under current law) is "conspicuous" is for decision by the court. The bill adds that a term also is "conspicuous" if it is displayed or presented so that a reasonable person against which it is to operate ought to have noticed it. The bill removes the current law reference to "clauses" and removes the current law examples of conspicuous language and, under the bill, conspicuous terms include the following:

- A heading in capitals equal to or greater in size than the surrounding text, or in contrasting type, font, or color to the surrounding text of the same or lesser size;
- Language in the body of a record or display in larger type than the surrounding text, or in contrasting type, font, or color to the surrounding text of the same size, or set off from surrounding text of the same size by symbols or other marks that call attention to the language. (R.C. 1301.01(J), renumbered R.C. 1301.201(B)(10) by the bill.)

--Consumer: the bill defines "consumer" as an individual who enters into a transaction primarily for personal, family, or household purposes (R.C. 1301.201(B)(11)).

--Contract: under the bill, a "contract," as distinguished from "agreement," means total legal obligation that results from the parties agreement as determined, rather than affected under current law, by the UCC, as supplemented by any other applicable laws (R.C. 1301.01(K), renumbered R.C. 1301.201(B)(12) by the bill).

--Defendant: under current law, a defendant includes a person in the position of defendant in cross-action or counterclaim. The bill removes a defendant in a cross-action and adds a defendant in a cross-claim or third-party claim. (R.C. 1301.01(L), renumbered R.C. 1301.201(B)(14) by the bill.)

--Delivery: the bill expands the definition of "delivery," which is currently defined with respect to instruments, documents of title, or chattel paper to mean voluntary transfer or possession, to include a definition of delivery with respect to electronic document of title to mean a voluntary transfer of control. The bill limits the definition by removing its application to certified securities. (R.C. 1301.01(N), renumbered R.C. 1301.201(B)(15) by the bill.)

--Document of title: under current law, a "document of title" includes a bill of lading, dock warrant, dock receipt, warehouse receipt, or order for the delivery of goods, and any other document that in the regular course of business or financing is treated as adequately evidencing that the person in possession of it is entitled to receive, hold, and dispose of the document and the goods it covers. To be a document of title, a document must purport to be issued by or addressed to a bailee and purport to cover goods in the bailee's possession that are either identified or are fungible portions of an identified mass. The bill changes references to "document" within the definition to "record" as defined by the bill, and includes that a person may either be in possession of or control of the record for the record to be a document of title. Additionally, the bill defines an "electronic document of title" as a document of title evidenced by a record consisting of information stored in an electronic medium. A "tangible document of title," under the bill, means a document of title evidenced by a record consisting of information that is inscribed on a tangible medium. (R.C. 1301.01(O), renumbered R.C. 1301.201(B)(16) by the bill.)

--Fault: the bill revises the definition of "fault," which is currently defined as a wrongful act, omission, or breach to be a default, breach, or wrongful act or omission (R.C. 1301.01(P), renumbered R.C. 1301.201(B)(17) by the bill).

--Fungible: under current law, "fungible" with respect to goods or securities, means goods or securities of which any unit is, by nature or usage of trade, the equivalent of any other like unit. Goods that are not fungible are fungible for the purposes of the UCC to the extent that under a particular agreement or document unlike units are treated as equivalents. The bill removes securities from the definition and renames the term "fungible goods." Under the bill, "fungible goods" are goods of which any unit, by nature or usage of trade, is the equivalent of any other like unit, or goods that by agreement are treated as equivalent. (R.C. 1301.01(Q), renumbered R.C. 1301.201(B)(18) by the bill.)

--Good faith: under current law, "good faith" means honesty in fact in the conduct or transaction concerned. A similar definition is found in each chapter of the UCC. Except for the Letters of Credit Law (R.C. Chapter 1305.), the bill redefines "good faith" to mean honesty in fact and the observance of reasonable commercial standards of fair dealing (R.C. 1301.01(S), renumbered R.C. 1301.201(B)(20) by the bill, with

conforming changes in R.C. 1302.01(A)(2); 1303.01(A)(4); 1304.01(C)(5); 1304.51(A)(9); 1307.01(A)(7), renumbered R.C. 1307.102(A)(6) by the bill; 1307.28, renumbered R.C. 1307.404 by the bill; 1308.01(A)(10), 1309.102(A)(43), 1310.01(C)(2) and (5), and 4517.01(BB).)

--Holder: under current law, "holder," with respect to a negotiable instrument means if the instrument is payable to bearer, a person who is in possession of the instrument or if the instrument is payable to an identified person, the identified person when in possession of the instrument. The bill removes the limitation of the definition to only negotiable instruments and defines "holder" to mean one of the following:

- The person in possession of a negotiable instrument that is payable either to bearer or to an identified person that is the person in possession of the instrument;
- The person in possession of a negotiable tangible document of title if the goods are deliverable either to bearer or to the order of the person in possession;
- The person in control of a negotiable electronic document of title (R.C. 1301.01(T), renumbered R.C. 1301.201(B)(21) by the bill).

--Honor: the bill eliminates the definition of "honor," which is currently defined as to pay or to accept and pay, or where a creditor so engages to purchase or discount a draft complying with the terms of the credit (R.C. 1301.01(U), repealed by the bill).

--Insolvent: under current law, a person is "insolvent" who either has ceased to pay the person's debts in the ordinary course of business or cannot pay the person's debts as they become due or is insolvent within the meaning of the federal bankruptcy law. The bill adds that a person is not insolvent if the person ceases to pay the person's debts in the ordinary course of business as a result of a bona fide dispute. (R.C. 1301.01(W), renumbered R.C. 1301.201(B)(23) by the bill.)

--Money: under current law, "money" means a medium of exchange authorized or adopted by a domestic or foreign government and includes a monetary unit of account established by an intergovernmental organization or by agreement between two or more nations. The bill requires that the medium of exchange be *currently* authorized or adopted. (R.C. 1301.01(X), renumbered R.C. 1301.201(B)(24) by the bill.)

--Organization: under current law, an "organization" includes a corporation, government, governmental subdivision or agency, business trust, estate, trust, partnership, or association, two or more persons having a joint or common interest, or any other legal or commercial entity. The bill redefines "organization" to mean a person

other than an individual, and relocates the business entities in the current law definition to the definition of "person." (R.C. 1301.01(BB), renumbered R.C. 1301.201(B)(25) by the bill.)

--Person: under current law, a "person" is an individual or an organization. The bill relocates the business entities currently included in the definition of organization as described above and adds a governmental instrumentality, public corporation, and joint venture and removes "two or more persons having a joint or common interest." (R.C. 1301.01(DD), renumbered R.C. 1301.201(B)(27) by the bill.) Although the changes to the definitions of "organization" and "person" appear to be substantive, the resulting change made actually does not appear to result in a substantive change.

--Purchase: the bill adds "lease" to the definition of "purchase," which currently includes taking by sale, discount, negotiation, mortgage, pledge, lien, security interest, issue or reissue, gift, or any other voluntary transaction creating an interest in property (R.C. 1301.01(FF), renumbered R.C. 1301.201(B)(29) by the bill).

--Record: the bill defines "record" as information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form (R.C. 1301.201(B)(31)).

--Security interest: the bill largely retains the current law definition of "security interest," except that the bill specifies that, except for when a seller ships under reservation (R.C. 1302.49; UCC 2-505), the right of a seller or lessor of goods under the Sales Law (R.C. Chapter 1302.) and the Leases Law (R.C. Chapters 1302. and 1310.) to retain or acquire possession of the goods (as added by the bill) is not a security interest, but a seller or lessor may acquire a security interest by complying with the UCC – Secured Transactions Law. The bill also removes the stipulation that a lease purchase agreement is never a security interest. (R.C. 1301.01(KK)(1), renumbered R.C. 1301.201(B)(35) by the bill.)

--Send: the bill expands the current law definition of "send" to include a record. Thus, under the bill, "send" in connection with any writing, record, or notice means to deposit in the mail or deliver for transmission by any other usual means of communication with postage or cost of transmission provided for and properly addressed and, in the case of an instrument, to an address specified thereon or otherwise agreed, or if there be none to any address reasonable under the circumstances or in any other way to cause to be received any record or notice within the time it would have arrived if properly sent. (R.C. 1301.01(LL), renumbered R.C. 1301.201(B)(36) by the bill.)

--Signed: under current law, "signed" includes any symbol executed or adopted by a party with present intention to authenticate a writing. The bill defines "signed" to mean using any symbol executed or authenticated with present intention to adopt or accept a writing. (R.C. 1301.01(MM), renumbered R.C. 1301.201(B)(37) by the bill.)

--State: the bill defines "state" as a state of the United States, the District of Columbia, Puerto Rico, the United States Virgin Islands, or any territory or insular possession subject to the jurisdiction of the United States (R.C. 1301.201(B)(38)). This definition is similar to the definition of "state" used for purposes of the Revised Code (see R.C. 1.59(G), not in the bill).

--Surety: current law defines "surety" to include guarantor. The bill expands the definition of "surety" to include any other secondary obligor. (R.C. 1301.01(NN), renumbered R.C. 1301.201(B)(39) by the bill.)

--Telegram: the bill eliminates the definition of "telegram," which currently includes a message transmitted by radio, teletype, cable, any mechanical method of transmission, or the like (R.C. 1301.01(OO), repealed by the bill).

--Warehouse receipt: under current law, a "warehouse receipt" is a written or electronic receipt issued by a person engaged in the business of storing goods for hire. The bill replaces a written document or electronic receipt with a document of title. (R.C. 1301.01(SS), renumbered R.C. 1301.201(B)(42) by the bill.)

Notice under the UCC

The bill largely retains the requirements to constitute notice under the UCC, except that it removes the specification that the time and circumstances under which a notice or notification may cease to be effective are not determined by the provision of the UCC governing notice (R.C. 1301.01(Y) to (AA), renumbered R.C. 1301.202 by the bill).

Course of performance, course of dealing, or usage of trade

Under current law, where the contract for sale or a lease contract involves repeated occasions for performance by either party with knowledge of the nature of the performance and opportunity for objection to it by the other, any course of performance accepted or acquiesced in without objection shall be relevant to determine the meaning of the agreement or lease agreement. Under continuing law, the express terms of the agreement or lease agreement and any such course of performance, as well as any course of dealing and usage of trade, must be construed whenever reasonable as consistent with each other; but when such construction is unreasonable, express terms controls course of performance and course of performance controls both course of

dealing and usage of trade. Subject to the provisions of the Sales Law, that course of performance is relevant to show a waiver or modification of any term inconsistent with such course of performance. (R.C. 1302.11 and 1310.14, repealed by the bill.)

The bill combines these concepts into the existing law provision that defines course of dealing and usage of trade. Under the bill, a course of performance is a sequence of conduct between the parties to a particular transaction that exists if the agreement of the parties with respect to the transaction involves repeated occasions for performance by a party and the other party, with knowledge of the nature of the performance and opportunity for objection to it, accepts the performance or acquiesces in it without objection (R.C. 1301.11, renumbered R.C. 1301.303(A) by the bill). Continuing law specifies that a course of performance (as added by the bill) or course of dealing between the parties or usage of trade in the vocation or trade in which they are engaged or of which they are or should be aware is relevant in ascertaining the meaning of the parties agreement. Current law requires that an applicable usage of trade in the place where any part of performance is to occur to be used in interpreting the agreement as to that part of the performance. The bill makes this permissive. (R.C. 1301.11(C) and (E), renumbered R.C. 1301.303(D) by the bill with conforming changes in R.C. 1302.05(A).)

Waiver or renunciation of claim or right after breach

Under current law, any claim or right arising out of an alleged breach can be discharged in whole or in part without consideration by a written waiver or renunciation signed and delivered by the aggrieved party. Under the bill, such a claim or right may be discharged in whole or in part without consideration by agreement of the aggrieved party in an authenticated record. (R.C. 1301.07, renumbered R.C. 1301.306 by the bill.)

Subordinated obligations

Under the bill, an obligation may be issued as subordinated to performance of another obligation of the person obligated, or a creditor may subordinate its right to performance of an obligation by agreement with either the person obligated or another creditor of the person obligated. Subordination does not create a security interest as against either the common debtor or a subordinated creditor. (R.C. 1301.310.)

Electronic Signatures in Global and National Commerce Act

The bill states that the UCC – General Provisions modifies, limits, and supersedes the federal "Electronic Signatures in Global and National Commerce Act," 15 U.S.C. section 7001 et seq., except that nothing in the UCC – General Provisions

modifies, limits, or supersedes section 7001(c) of that act or authorizes electronic delivery of any of the notices described in section 7003(b) of that act (R.C. 1301.108).

Severability and use of singular and plural and gender

Under continuing law, if any provisions of a section of the Revised Code or the application thereof to any person or circumstance is held invalid, the invalidity does not affect other provisions or applications of the section or related sections which can be given effect without the invalid provision or application, and to this end the provisions are severable (R.C. 1.50, not in the bill). The bill adds this specific provision to the UCC – General Provisions (R.C. 1301.105).

Also, for purposes of the Revised Code, the singular includes the plural, the plural includes the singular, and words of one gender include the other genders (R.C. 1.43). The bill adds these specific provisions to the UCC – General Provisions (R.C. 1301.106).

Changes to R.C. Chapter 1307.--UCC – Documents of Title

Under the bill, R.C. Chapter 1307. may be cited as the "Uniform Commercial Code, Documents of Title" (R.C. 1307.101(A)). The most significant change to the chapter made by the bill is the addition of electronic documents.

Definitions

The bill adds or substantively modifies the definitions of the following terms:

--Carrier: the bill defines "carrier" as a person that issues a bill of lading (R.C. 1307.102(A)(2)).

--Delivery order: current law defines "delivery order" as a written order to deliver goods directed to a warehouseman, carrier or other person who in the ordinary course of business issues warehouse receipts or bills of lading. The bill replaces "written order" with record, thus incorporating electronic documents into the term. (R.C. 1307.01(A)(4), renumbered R.C. 1307.102(A)(5) by the bill.)

--Document: the bill eliminates the definition of "document," which is currently defined as having the same meaning as "document of title." The bill makes conforming changes throughout the chapter to have "document" refer to "document of title," thus, it does not appear that a substantive change results from this repeal. (R.C. 1307.01(A)(5), repealed by the bill.)

--Goods: under current law, "goods" means all things that are treated as removable for the purpose of a contract of storage or transportation. The bill changes

"removable" to "movable." (R.C. 1307.01(A)(6), renumbered R.C. 1307.102(A)(7) by the bill.)

--Record: the bill defines "record" as information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form. This is the same definition of "record" added by the bill to UCC – General Provisions. (R.C. 1307.102(A)(10).)

--Sign: under the bill, "sign" means, with present intent to authenticate or adopt a record, to execute or adopt a tangible symbol or to attach to or logically associate with the record an electronic sound, symbol, or process. This definition differs from the definition of signed added by the bill to the UCC – General Provisions. (R.C. 1307.102(A)(11).)

--Shipper: the bill defines "shipper" as a person that enters into a contract of transportation with a carrier (R.C. 1307.102(A)(12)).

--Warehouseman: the bill renames the term "warehouse" and retains the definition, which is a person engaged in the business of storing of goods for hire (R.C. 1307.102(A)(13), with conforming changes throughout the bill).

The bill also eliminates the cross-reference of the definition of "duly negotiate" found in the chapter; however, the bill does not completely eliminate the concept of the term (R.C. 1307.01(B), repealed by the bill, and R.C. 1307.29, renumbered R.C. 1307.501 by the bill). The bill also removes the cross-reference to the definition of overseas, as changes to the chapter eliminate the use of the term. Additionally, the bill adds the definition of "lessee in ordinary course of business," which is defined as a person who in good faith and without knowledge that the lease to the person is in violation of the ownership rights or security interest or leasehold interest of a third party in the goods leases in ordinary course from a person in the business of selling or leasing goods of that kind. "Lessee in ordinary course of business" does not include a pawnbroker. (R.C. 1307.102(B), by reference to R.C. 1310.01.)

Electronic documents of title

Current law regulates tangible documents of title, and the bill expands the UCC – Documents of Title to include electronic documents of title. Under the bill, a person has control of an electronic document of title if a system employed for evidencing the transfer of interests in the electronic document reliably establishes that person as the person to which the electronic document was issued or transferred (R.C. 1307.106(A)). A system satisfies this requirement, and a person is deemed to have control of an electronic document of title, if the document is created, stored, and assigned in such a manner that:

(1) A single authoritative copy of the document exists which is unique, identifiable, and, except as otherwise provided in (4), (5), and (6) below, unalterable;

(2) The authoritative copy identifies the person asserting control as: the person to which the document was issued or, if the authoritative copy indicates that the document has been transferred, the person to which the document was most recently transferred;

(3) The authoritative copy is communicated to and maintained by the person asserting control or its designated custodian;

(4) Copies or amendments that add or change an identified assignee of the authoritative copy can be made only with the consent of the person asserting control;

(5) Each copy of the authoritative copy and any copy of a copy is readily identifiable as a copy that is not the authoritative copy; and

(6) Any amendment of the authoritative copy is readily identifiable as authorized or unauthorized. (R.C. 1307.106(B).)

Under the bill, upon request of a person entitled under an electronic document of title, the issuer of the electronic document may issue a tangible document of title as a substitute for the electronic document if the person entitled under the electronic document surrenders control of the document to the issuer, and the tangible document when issued contains a statement that it is issued in substitution for the electronic document. Upon issuance of a tangible document of title in substitution for an electronic document of title, the electronic document ceases to have any effect or validity and the person that procured issuance of the tangible document warrants to all subsequent persons entitled under the tangible document that the warrantor was a person entitled under the electronic document when the warrantor surrendered control of the electronic document to the issuer. (R.C. 1307.105(A) and (B).)

Similarly, upon request of a person entitled under a tangible document of title, the issuer of the tangible document may issue an electronic document of title as a substitute for the tangible document if the person entitled under the tangible document surrenders possession of the document to the issuer, and the electronic document when issued contains a statement that it is issued in substitution for the tangible document. Upon issuance of an electronic document of title in substitution for a tangible document of title in accordance, the tangible document ceases to have any effect or validity, and the person that procured issuance of the electronic document warrants to all subsequent persons entitled under the electronic document that the warrantor was a person entitled

under the tangible document when the warrantor surrendered possession of the tangible document to the issuer. (R.C. 1307.105(C) and (D).)

Due negotiation

Under current law, a negotiable document of title running to the order of a named person is negotiated by the person's indorsement and delivery. After the person's indorsement in blank or to bearer any person can negotiate it by delivery alone. A negotiable document of title is also negotiated by delivery alone when by its original terms it runs to bearer. When a document running to the order of a named person is delivered to the named person the effect is the same as if the document had been negotiated. (R.C. 1307.29(A) and (B), renumbered R.C. 1307.501(A) by the bill.)

The bill limits the requirements for negotiability described above to tangible documents of title (R.C. 1307.501(A)). Under the bill, the following rules apply to a negotiable electronic document of title:

(1) If the document's original terms run to the order of a named person or to bearer, the document is negotiated by delivery of the document to another person. Indorsement by the named person is not required to negotiate the document.

(2) If the document's original terms run to the order of a named person and the named person has control of the document, the effect is the same as if the document had been negotiated.

(3) A document is duly negotiated if it is negotiated in the manner stated in (1) or (2) above to a holder that purchases it in good faith, without notice of any defense against or claim to it on the part of any person, and for value, unless it is established that the negotiation is not in the regular course of business or financing or involves taking delivery of the document in settlement or payment of a monetary obligation. (R.C. 1307.501(B).)

Under continuing law, subject to rights acquired in absence of negotiation, title and rights so acquired are not defeated by any stoppage of the goods represented by the document or by surrender of the goods by the bailee, and are not impaired even though the negotiation or any prior negotiation constituted a breach of duty or even though any person has been deprived of possession of the document by misrepresentation, fraud, accident, mistake, duress, loss, theft, or conversion, or even though a previous sale or other transfer of the goods or document has been made to a third person (R.C. 1307.30(B), renumbered R.C. 1307.502(B)). The bill incorporates electronic documents of title into this provision, adding that the rights acquired by due negotiation are not impaired even if any person has been deprived of control of a negotiable electronic

document of title by misrepresentation, fraud, accident, mistake, duress, loss, theft, or conversion (R.C. 1307.501(B)).

Current law provisions expanded to cover electronic documents of title

Under current law, where a blank in a negotiable warehouse receipt has been filled in without authority, a purchaser for value and without notice of the want of authority may treat the insertion as authorized. Any other unauthorized alteration leaves any receipt enforceable against the issuer according to its original tenor. The bill limits the provision regarding treating the insertion as authorized to tangible documents of title and requires the purchaser to be a good-faith purchaser. The bill applies any other unauthorized alteration to both tangible and electronic warehouse receipts. (R.C. 1307.13, renumbered R.C. 1307.208 by the bill.)

Under current law, unless the bill of lading otherwise provides, the carrier may deliver the goods to a person or destination other than that stated in the bill or may otherwise dispose of the goods on instructions from any of the following:

- (1) The holder of a negotiable bill;
- (2) The consignor on a non-negotiable bill notwithstanding contrary instructions from the consignee;
- (3) The consignee on a nonnegotiable bill in the absence of contrary instructions from the consignor, if the goods have arrived at the billed destination or if the consignee is in possession of the bill;
- (4) The consignee of a nonnegotiable bill if the consignee is entitled as against the consignor to dispose of them.

The bill states that the carrier may take these actions upon instructions from the persons listed in (1) to (4) above without liability for misdelivery. Also, the bill adds that, for purposes of (3) immediately above, the consignee is in control of the electronic bill. (R.C. 1307.18(A), renumbered R.C. 1307.303(A) by the bill.)

Under continuing law, upon request of any person entitled as against the carrier to control the goods while in transit and on surrender of any outstanding bill of lading or other receipt covering the goods, the issuer may procure a substitute bill to be issued at any place designated in the request. The bill specifies that procurement of a substitute bill may occur upon surrendering of possession or control of any outstanding bill of lading (thus incorporating electronic documents of title) and is subject to the bill's requirements concerning issuing documents in alternative mediums as discussed

under "**Electronic documents of title**" above. (R.C. 1307.20, renumbered R.C. 1307.305 by the bill.)

Under current law, neither a duplicate nor any other document of title purporting to cover goods already represented by an outstanding document of the same issuer confers any right in the goods, except as provided in the case of bills in a set, overissue of documents for fungible goods, and substitutes for lost, stolen, or destroyed documents. But the issuer is liable for damages caused by its overissue or failure to identify a duplicate document as such by conspicuous notation on its face. The bill limits the exception of issuing bills in a set to tangible bills (see "**Provisions limited to tangible documents of title**" below). Also, the bill adds an exception for substitute bills issued in an alternative medium. The bill also removes the requirement that the conspicuous notation be on the face of the document. (R.C. 1307.26, renumbered R.C. 1307.402 by the bill.)

Unless the person claiming the goods is one against which the document does not confer a right to the title of the goods, current law requires the person to surrender for cancellation or notation of partial deliveries any outstanding negotiable document covering the goods, and the bailee must cancel the document or conspicuously note the partial delivery thereon or be liable to any person to whom the document is duly negotiated. The bill instead requires the person claiming the document to surrender possession or control of any outstanding negotiable document covering goods for cancellation or indication of partial deliveries, thus incorporating electronic documents. (R.C. 1307.27(C), renumbered R.C. 1307.403(C) by the bill.)

Lost, stolen, or destroyed documents of title

If a document of title is lost, stolen, or destroyed, under continuing law a court may order delivery of the goods or issuance of a substitute document and the bailee may without liability to any person comply with the order. Current law requires, if the document was negotiable, the claimant to post security approved by the court to indemnify any person that may suffer loss as a result of nonsurrender of the document. The bill prohibits a court, if the document was negotiable, from ordering delivery of the goods or issuance of a substitute document without the claimant's posting security unless it finds that any person that may suffer loss as a result of nonsurrender of possession or control of the document is adequately protected against the loss. (R.C. 1307.38(A), renumbered R.C. 1307.601(A) by the bill.)

Under continuing law, a bailee that without court order delivers goods to a person claiming under a missing negotiable document of title is liable to any person injured thereby. If the delivery is not in good faith, the bailee is liable for conversion. Delivery in good faith is not conversion (1) if made in accordance with a filed

classification or tariff or, (2) where no classification or tariff is filed, if the claimant posts security with the bailee in an amount at least double the value of the goods at the time of posting to indemnify any person injured by the delivery which files a notice of claim within one year after the delivery. The bill eliminates (1) above. (R.C. 1307.38(B), renumbered R.C. 1307.601(B) by the bill.)

Judicial process against goods covered by a document of title

Unless a document of title was originally issued upon delivery of the goods by a person that did not have power to dispose of them, a lien does not attach by virtue of any judicial process to goods in the possession of a bailee for which a negotiable document of title is outstanding unless the document is first surrendered to the bailee or the document's negotiation is enjoined. The bailee may not be compelled to deliver the goods pursuant to process until the document is surrendered to the bailee or impounded by the court. A purchaser of the document for value without notice of the process or injunction takes free of the lien imposed by judicial process. The bill requires the possession or control of the document to be surrendered, thus incorporating electronic documents. Additionally, the bill removes the requirement that the document be impounded to the court, and instead requires possession or control of the document be surrendered to the court. (R.C. 1307.39, renumbered R.C. 1307.602 by the bill.)

Provisions limited to tangible documents of title

Current law prohibits a bill of lading from being issued in a set of parts except where customary in overseas transportation. The bill limits this prohibition to tangible bills of lading and changes the reference to "overseas transportation" to "international transportation." Additionally, current law requires that a bill of lading lawfully issued in a set of parts have each part numbered. The bill requires a tangible bill of lading lawfully issued in a set of parts to have each part contain an identification code. (R.C. 1307.19(A), (B), and (D), renumbered R.C. 1307.304(A), (B), and (D), with conforming changes in R.C. 1302.36.)

Under continuing law, the indorsement of a document of title issued by a bailee does not make the indorser liable for any default by the bailee or previous indorsers. Additionally, the transferee of a negotiable document of title has a specifically enforceable right to have its transferor supply any necessary indorsement, but the transfer becomes a negotiation only as of the time the indorsement is supplied. The bill limits the applicability of both of these provisions to tangible documents of title. (R.C. 1307.33 and 1307.34, renumbered R.C. 1307.505 and 1307.506 by the bill.)

Negotiability and nonnegotiability of documents of title

Under current law, a warehouse receipt, bill of lading, or other document of title is negotiable: (1) if by its terms the goods are to be delivered to bearer or to the order of a named person, or (2) where recognized in overseas trade, if it runs to a named person or assigns. Any other document is nonnegotiable. A bill of lading in which it is stated that the goods are consigned to a named person is not made negotiable by a provision that the goods are to be delivered only against a written order signed by the same or another named person.

The bill eliminates (2) above and removes the specific references to a warehouse receipt or bill of lading being negotiable. Thus, under the bill, a document of title (which includes a warehouse receipt and a bill of lading) is negotiable if by its terms the goods are to be delivered to bearer or to the order of a named person. The bill slightly alters the restriction on bills of lading, stating that it is not made negotiable by a provision that the goods are to be delivered only against an order in a record, thus incorporating electronic documents. The bill adds that a document of title is nonnegotiable if, at the time it is issued, the document has a conspicuous legend, however expressed, that it is nonnegotiable. (R.C. 1307.04, renumbered R.C. 1307.104 by the bill.)

Form of warehouse receipts and irregularities in issuance

Although, under continuing law, a warehouse receipt does not need to be in any particular form, current law requires a warehouse receipt to embody within its written or printed terms specified information, including the following information:

- (1) The location of the warehouse;
- (2) The consecutive number of the receipt;
- (3) A statement whether the goods received will be delivered to the bearer, to a specified person, or to order (R.C. 1307.07(A), renumbered R.C. 1307.202(A) by the bill).

Because the bill allows warehouse receipts to be in electronic form, the bill removes the requirement that the information be embodied within the written or printed terms of the warehouse receipt. Additionally, the information must contain the location of the warehouse facility, because, under the bill, a "warehouse" is a person engaged in the business of storing goods for hire. Additionally, with respect to (2) above, the bill requires the receipt contain the unique identification number of the receipt, rather than the consecutive number as under current law. The bill, for purposes of (3) above, requires a statement whether the goods received will be delivered to the bearer, to a named person, or to a named person or its order. (R.C. 1307.202(A).)

Current law applies the obligations imposed by the UCC – Documents of Title on an issuer to a document of title even if the issuer may have violated laws regulating the conduct of its business. The bill requires the issuer to have violated such laws. (R.C. 1307.25, renumbered R.C. 1307.401(2) by the bill.)

Duty of care and warehouse's or carrier's liability

Under current law, damages may be limited by a term in the warehouse receipt or storage agreement limiting the amount of liability in case of loss or damage, and setting forth a specific liability per article or item, or value per unit of weight, beyond which the warehouse is not liable; provided, that the liability may on written request of the bailor at the time of signing such storage agreement or within a reasonable time after receipt of the warehouse receipt be increased on part or all of the goods thereunder, in which event increased rates may be charged based on such increased valuation, but that no such increase must be permitted contrary to a lawful limitation of liability contained in the warehouse's tariff, if any. No such limitation is effective with respect to the warehouse's liability for conversion to its own use. (R.C. 1307.09(B), renumbered R.C. 1307.204(B) by the bill.)

The bill removes the ability to limit damages by setting forth a specific liability per article or item, or value per unit of weight, beyond which the warehouse is not liable. Although the bill retains the ability to limit damages by a term in the warehouse receipt or storage agreement limiting the amount of liability in case of loss or damage, the bill adds that the limitation is not effective with respect to the warehouse's liability for conversion to its own use. If the bailor makes a request, that request under the bill must be in a record. The bill removes the restriction on the increase being contrary to a lawful limitation of liability contained in the warehouse's tariff, if any. (R.C. 1307.204(B).)

Continuing law allows a warehouse receipt or tariff to include reasonable provisions as to the time and manner of presenting claims and commencing actions based on the bailment. The bill removes the reference to tariffs, and allows a storage agreement to include that information. (R.C. 1307.09(C), renumbered R.C. 1307.204(C) by the bill.)

Under current law, damages may be limited by a provision that the carrier's liability must not exceed a value stated in the document if the carrier's rates are dependent upon the value and the consignor by the carrier's tariff is afforded an opportunity to declare a higher value or a value as lawfully provided in the tariff, or where no tariff is filed the consignor is otherwise advised of such opportunity; but no such limitation is effective with respect to the carrier's liability for conversion to its own use. Reasonable provisions as to the time and manner of presenting claims and

instituting actions based on the shipment may be included in a bill of lading or tariff. Under the bill, damages may be limited by a term in a bill of lading or a transportation agreement. The bill also removes all references to tariffs, and allows reasonable provisions as to the time and manner of presenting claims and commencing actions based on the shipment to be included in a transportation agreement as well as a bill of lading. (R.C. 1307.24(B) and (C), renumbered R.C. 1307.309(B) and (C) by the bill.)

Liens

Continuing law grants a warehouse a lien against the bailor on the goods covered by a warehouse receipt or on the proceeds thereof in its possession for charges for storage or transportation, including demurrage and terminal charges, insurance, labor, or charges present or future in relation to the goods, and for expenses necessary for preservation of the goods or reasonably incurred in their sale pursuant to law. If the person on whose account the goods are held is liable for like charges or expenses in relation to other goods whenever deposited and it is stated in the receipt that a lien is claimed for charges and expenses in relation to other goods, the warehouse also has a lien against the person for such charges and expenses whether or not the other goods have been delivered by the warehouse. The bill also grants a warehouse a lien of the goods covered by a storage agreement or the proceeds thereof. Also, the bill specifies that the lien is on the goods covered by the warehouse receipt or storage agreement or the proceeds thereof, rather than on the person as under current law. (R.C. 1307.14(A), renumbered R.C. 1307.209(A) by the bill.)

Under current law, a warehouse's lien for charges and expenses, or a security interest under continuing law is also effective against any person who so entrusted the bailor with possession of the goods that a pledge of them by the bailor to a good faith purchaser for value would have been valid but is not effective against a person as to whom the document confers no right in the goods covered by it under continuing law. The bill limits the effect of the lien or security interest; neither the lien nor security interest is effective against a person that before issuance of a document of title had a legal interest or a perfected security interest in the goods covered by it and that did not:

(1) Deliver or entrust the goods or any document covering the goods to the bailor or the bailor's nominee with actual or apparent authority to ship, store, or sell; power to obtain delivery under continuing law; or power of disposition under other provisions of the UCC as adopted in Ohio, or other statute or rule of law; or

(2) Acquiesce in the procurement by the bailor or its nominee of any document. (R.C. 1307.14(C), renumbered R.C. 1307.209(C) by the bill.)

The bill makes a warehouse's lien on household goods for charges and expenses in relation to the goods also effective against all persons if the depositor was the legal possessor of the goods at the time of deposit. In this provision, "household goods" means furniture, furnishings, or personal effects used by the depositor in a dwelling. (R.C. 1307.209(D).)

Current law lists requirements a warehouse must satisfy to enforce its lien on goods, other than goods stored by a merchant in the course of its business. The bill eliminates the requirement that the notification be delivered in person or sent by registered letter to the last known address of any person to be notified, but retains the remaining requirements. (R.C. 1307.15(B)(2), repealed by the bill, renumbered R.C. 1307.210(B) by the bill.)

Under continuing law, a carrier has a lien on the goods covered by a bill of lading for charges subsequent to the date of the carrier's receipt of the goods for storage or transportation, including demurrage and terminal charges, and for expenses necessary for preservation of the goods incident to their transportation or reasonably incurred in their sale pursuant to continuing law. The bill also grants a carrier a lien on the proceeds of the goods in its possession. (R.C. 1307.22(A), renumbered R.C. 1307.307(A) by the bill.)

Termination of storage at warehouse's option

Under continuing law, if a warehouse in good faith believes that the goods are about to deteriorate or decline in value to less than the amount of its lien within the time prescribed in continuing law for notification, advertisement, and sale, the warehouse may specify in the notice given for the sale of the goods any reasonable shorter time for removal of the goods and, if the goods are not removed, may sell them at public sale held not less than one week after a single advertisement or posting. The bill adds that the time period within which the goods are about to deteriorate or decline in value also must be within the time period for enforcing a lien. (R.C. 1307.11(B), renumbered R.C. 1307.206(B).)

Addition of leases to certain provisions

Continuing law requires a bailee to deliver the goods to a person entitled under a document of title if the person complies with the requirements in continuing law and unless and to the extent the bailee demonstrates an exception applies. One exception is damage to or delay, loss, or destruction of the goods for which the bailee is not liable, but the burden of establishing negligence in such cases is on the person entitled under the document. Another exception is the exercise by a seller of its right to stop delivery pursuant to the provisions of the Sales Law (R.C. Chapter 1302.). The bill eliminates the

placement of the burden of establishing negligence. Also, the bill adds an exception of the exercise by a lessor of its right to stop delivery pursuant to the provisions of the Leases Law. The remaining exceptions remain substantively unchanged by the bill. (R.C. 1307.27(A), renumbered R.C. 1307.403(A) by the bill.)

Under continuing law, a document of title confers no right in goods against a person that before issuance of the document had a legal interest or a perfected security interest in the goods and that did not:

(1) Deliver or entrust the goods or any document of title covering the goods to the bailor or the bailor's nominee with actual or apparent authority to ship, store, or sell or with power; power to obtain delivery under continuing law; or with power of disposition under the Sales Law or the UCC – Secured Transactions Law (R.C. Chapter 1309.), or other statute or rule of law; or

(2) Acquiesce in the procurement by the bailor or its nominee of any document.

The bill includes the power of disposition under the Leases Law to (1) above. (R.C. 1307.31, renumbered R.C. 1307.503 by the bill.)

Under continuing law, in the case of a transfer of a nonnegotiable document of title, until but not after the bailee receives notice of the transfer, the rights of the transferee may be defeated:

- By those creditors of the transferor which could treat the sale as void under the Sales Law; or
- By a buyer from the transferor in ordinary course of business if the bailee has delivered the goods to the buyer or received notification of the buyer's rights; or
- As against the bailee, by good-faith dealings of the bailee with the transferor.

The bill also allows the rights to be defeated by those creditors of the transferor which could treat the transfer as void under the Leases Law. Also, a lessee from the transferor in ordinary course of business if the bailee has delivered the goods to the lessee or received notification of the lessee's rights may defeat those rights. (R.C. 1307.32(B), renumbered R.C. 1307.504(B) by the bill.)

A diversion or other change of shipping instructions by the consignor in a nonnegotiable bill of lading which causes the bailee not to deliver the goods to the consignee defeats the consignee's title to the goods if the goods have been delivered to a

buyer in ordinary course of business or a lessee in ordinary course of business, as added by the bill, and, in any event, defeats the consignee's rights against the bailee (R.C. 1307.32(C), renumbered R.C. 1307.504(C) by the bill).

The bill allows a lessor under the Leases Law to stop the delivery of the goods pursuant to a nonnegotiable document of title in the same manner as a seller under continuing law (R.C. 1307.32(D), renumbered R.C. 1307.504(D) by the bill).

If, under continuing law, a person negotiates or delivers a document of title for value, otherwise than as a mere intermediary under continuing law, then unless otherwise agreed, the transferor, in addition to any warranty made in selling (or leasing, as added by the bill) the goods, warrants to its immediate purchaser only that the document is genuine, the transferor does not have knowledge of any fact that would impair the document's validity or worth, and the negotiation or delivery is rightful and fully effective with respect to the title to the document and the goods it represents (R.C. 1307.35, renumbered R.C. 1307.507 by the bill).

Whether a document of title is adequate to fulfill the obligations of a contract for sale, a contract for lease, as added by the bill, or the conditions of a letter of credit is determined by the Sales Law, the Letters of Credit Law, or the Leases Law (R.C. 1307.37, renumbered R.C. 1307.509 by the bill).

Relation of chapter to treaties and other laws

The bill subjects the UCC – Documents of Title to any treaty or statute of the United States or Ohio regulatory statute to the extent the treaty, statute, or regulatory statute is applicable. Additionally, the bill includes, similar to the language added to the UCC – General Provisions, that the UCC – Documents of Title modifies, limits, and supersedes the federal "Electronic Signatures in Global and National Commerce Act," 15 U.S.C. section 7001, et seq., but does not modify, limit, or supersede section 101(c) of that act (15 U.S.C. section 7001(c)) or authorize electronic delivery of any of the notices described in section 103(b) of that act (15 U.S.C. section 7003(b)). Also, to the extent there is a conflict between the Uniform Electronic Transactions Act (R.C. Chapter 1306.) and the UCC – Documents of Title, the UCC – Documents of Title governs. (R.C. 1307.02, renumbered R.C. 1307.103 by the bill.)

Updated terminology

The bill modernizes a few of the terms currently used in the UCC – Documents of Title Law. A "common carrier" is a "performing carrier" under the bill, and references to goods "in bloc or in parcels" is changed to "in bulk or in packages" under the bill. (R.C. 1307.15, renumbered R.C. 1307.210 by the bill; R.C. 1307.16, renumbered R.C.

1307.301 by the bill; R.C. 1307.17, renumbered R.C. 1307.302 by the bill; and R.C. 1307.23, renumbered R.C. 1307.308 by the bill.)

Applicability of changes to UCC – Documents of Title

The UCC – Documents of Title applies to a document of title that is issued or a bailment that arises on or after the bill's effective date. The UCC – Documents of Title does not apply to a document of title that is issued or a bailment that arises before the bill's effective date even if the document of title or bailment would be subject to that law if the document of title had been issued or bailment had arisen after the bill's effective date. The UCC – Documents of Title does not apply to a right of action that has accrued before the bill's effective date. (R.C. 1307.703.)

A document of title issued or a bailment that arises before the bill's effective date and the rights, obligations, and interests flowing from that document or bailment are governed by any statute or other rule amended or repealed by the bill as if amendment or repeal had not occurred and may be terminated, completed, consummated, or enforced under that statute or other rule (R.C. 1307.704).

Changes to the UCC as adopted by Ohio resulting from the regulation of electronic documents of title

The Sales Law--R.C. Chapter 1302.

The bill defines "control" for purposes of the Sales Law to mean "control" as set forth in the provision of the UCC – Documents of Title that establishes control of an electronic document (see "**Electronic documents of title**" above) (R.C. 1302.01(C), by reference to R.C. 1307.106).

Continuing law specifies the timing that payment is due for specified sales. Under current law, unless otherwise agreed, if delivery is authorized and made by way of documents of title otherwise than when the seller is authorized to send the goods under continuing law, then payment is due at the time and place at which the buyer is to receive the documents regardless of where the goods are to be received. The bill limits the current law circumstance to tangible documents of title and adds that payment is due regardless of where the goods are to be received at the time the buyer is to receive delivery of the electronic documents and at the seller's place of business or if none, the seller's residence. (R.C. 1302.23(C).)

Continuing law specifies when title passes for the sale of goods. Under current law, unless otherwise explicitly agreed where delivery is to be made without moving the goods if the seller is to deliver a document of title, title passes at the time when and the place where the seller delivers the documents. The bill limits that requirement to

tangible documents of title, and requires, unless otherwise explicitly agreed where delivery is to be made without moving the goods if the seller is to deliver an electronic document of title, title passes when the seller delivers the document. (R.C. 1302.42(C).)

Under current law, where goods are in the possession of a bailee and are to be delivered without being moved, tender requires that the seller either tender a negotiable document of title covering such goods or procure acknowledgment by the bailee of the buyer's right to possession of the goods, but tender to the buyer of a non-negotiable document of title or of a *written direction* to the bailee to deliver is sufficient tender unless the buyer seasonably objects, and receipt by the bailee of notification of the buyer's rights fixes those rights as against the bailee and all third persons; but risk of loss of the goods and of any failure by the bailee to honor the non-negotiable document of title or to obey the direction remains on the seller until the buyer has had a reasonable time to present the document or direction, and a refusal by the bailee to honor the document or to obey the direction defeats the tender. The bill changes the reference to a *written direction* to a *record directing*, thus incorporating electronic documents into the existing scheme, and also states that the bailee's receipt of the notification buyer's rights fixes those rights subject to the UCC – Secured Transactions Law. (R.C. 1302.47(D).) Additionally, where the contract requires the seller to deliver documents, continuing law requires the seller to tender all such documents in correct form, except as provided in continuing law, and tender through customary banking channels is sufficient and dishonor of a draft accompanying the documents constitutes nonacceptance or rejection. The bill expands this provision to also apply to drafts associated with the documents, to incorporate electronic documents. (R.C. 1302.47(E).)

Where the seller has identified goods to the contract by or before shipment under continuing law, a non-negotiable bill of lading to the seller's own self or the seller's nominee reserves possession of the goods as security but except in a case of conditional delivery as provided continuing law, a non-negotiable bill of lading naming the buyer as consignee reserves no security interest even though the seller retains possession of the bill of lading. The bill expands this provision to apply to situations in which the seller retains control of the bill of lading, to incorporate electronic documents. (R.C. 1302.49(A)(2).)

Under current law the right to reimbursement of a financing agency which has in good faith honored or purchased the draft under commitment to or authority from the buyer is not impaired by subsequent discovery of defects with reference to any relevant document which was apparently regular on its face. Additionally, payment against documents made without reservation of rights precludes recovery of the payment for defects apparent on the face of the documents. The bill eliminates the reference of the

document appearing regular on its face or that the defect was apparent on the face of the document to incorporate electronic documents. (R.C. 1302.50(B) and 1302.63(B).)

Where the goods are held by a bailee to be delivered without being moved, current law passes the risk of loss to the buyer when any of the following occur:

- (1) On the buyer's receipt of a negotiable document of title covering the goods;
- (2) On acknowledgment by the bailee of the buyer's right to possession of the goods;
- (3) After the buyer's receipt of a non-negotiable document of title or other written direction to deliver, as provided in continuing law.

The bill, for purposes of (1) and (3) above, requires the bailee to receive possession or control of the nonnegotiable document of title, thus accommodating electronic documents of title. For purposes of (3) above, the bill requires the directions to be in a record rather than a written direction. (R.C. 1302.53(B).)

To stop delivery under continuing law the seller must so notify as to enable the bailee by reasonable diligence to prevent delivery of the goods. If a negotiable document of title has been issued for goods the bailee is not obliged to obey a notification to stop until surrender of possession (or control of, as added by the bill) the document. (R.C. 1302.79(C).)

Bank Deposits and Collections Law--R.C. Chapter 1304.

The bill defines "control" for purposes of the Bank Deposits and Collections Law to mean "control" as set forth in the provision of the UCC – Documents of Title that establishes control of an electronic document (see "**Electronic documents of title**" above) (R.C. 1304.01(C)(4), by reference to R.C. 1307.106). Under continuing law, receipt by a collecting bank of a final settlement for an item is a realization on its security interest in the item, accompanying documents, and proceeds. So long as the bank does not receive final settlement for the item or give up possession of the item or possession (or control, as added by the bill to accommodate electronic documents) of the accompanying documents for purposes other than collection, the security interest continues to that extent and is subject to the UCC – Secured Transaction, except as provided in continuing law. (R.C. 1304.20(C).)

Investment Securities Law--R.C. Chapter 1308.

Under the bill, a document of title is not a financial asset unless it is property that is held by a securities intermediary for another person in a securities account if the

securities intermediary has expressly agreed with the other person that the property is to be treated as a financial asset under the Investment Securities Law (R.C. 1308.02(G)).

UCC - Secured Transactions--R.C. Chapter 1309.

The bill defines "control" for purposes of the UCC – Secured Transactions to mean "control" as set forth in the provision of the UCC – Documents of Title that establishes control of an electronic document (see "**Electronic documents of title**" above) (R.C. 1309.102(B)(8), by reference to R.C. 1307.106). Additionally, the bill defines "issuer," with respect to a document of title, as a bailee that issues a document of title or, in the case of an unaccepted delivery order, the person that orders the possessor of goods to deliver. The term includes a person for which an agent or employee purports to act in issuing a document if the agent or employee has real or apparent authority to issue documents, even if the issuer did not receive any goods, the goods were misdescribed, or in any other respect the agent or employee violated the issuer's instructions. (R.C. 1309.102(B)(15), by reference to R.C. 1307.102(A)(8).)

Under continuing law, unless an exception applies, a security interest is enforceable against the debtor and third parties with respect to the collateral only if specified requirements are satisfied. One of those requirements is that the collateral is deposit accounts, electronic chattel paper, investment property, or letter-of-credit rights, or electronic documents, as added by the bill, and the secured party has control under the applicable law pursuant to the debtor's security agreement. (R.C. 1309.203(B)(3)(d).) The bill allows a secured party that has control of an electronic document of title as described under "**Electronic documents of title**" above to take the same actions that a secured party that has control of deposit paper, electronic chattel paper, investment property, or letter-of-credit right may take regarding the secured property (R.C. 1309.207(C)).

A secured party that has control of electronic documents as described under "**Electronic documents of title**" has the same rights and duties regarding possession and care of the collateral as other secured parties (R.C. 1309.601(B)).

The bill requires, within ten days after receiving an authenticated demand by the debtor, a secured party having control of an electronic document to do all of the following:

- Give control of the electronic document to the debtor or its designated custodian;
- If the debtor designates a custodian that is the designated custodian with which the authoritative copy of the electronic document is maintained for the secured party, communicate to the custodian an authenticated record

releasing the designated custodian from any further obligation to comply with instructions originated by the secured party and instructing the custodian to comply with instructions originated by the debtor;

- Take appropriate action to enable the debtor or its designated custodian to make copies of or revisions to the authoritative copy which add or change an identified assignee of the authoritative copy without the consent of the secured party (R.C. 1309.208(B)(6)).

Continuing law lists the rules that determine the law governing perfection, the effect of perfection or nonperfection, and the priority of a security interest in collateral. While negotiable documents, goods, instruments, money, or tangible chattel paper is located in a jurisdiction, the local law of that jurisdiction governs: (1) perfection of a security interest in the goods by filing a fixture filing, (2) perfection of a security interest in timber to be cut, and (3) the effect of perfection or nonperfection and the priority of a nonpossessory security interest in the collateral. The bill limits this rule to tangible negotiable documents only. (R.C. 1309.301(C).)

A security interest in certificated securities, negotiable documents, or instruments under continuing law is perfected without filing or the taking of possession or control, as added by the bill, for a period of 20 days from the time it attaches to the extent that it arises for new value given under an authenticated security agreement. Similar to other electronic collateral under current law, the bill permits a security interest in electronic documents to be perfected by control of the collateral as described under "**Electronic documents of title**" above. Such a security interest is perfected by control under "**Electronic documents of title**" above when the secured party obtains control and remains perfected by control only while the secured party retains control. A security interest that is perfected in either this manner described above does not need a filing statement. (R.C. 1309.310(A)(5) and (8), 1309.312(E), and 1309.314(A) and (B).)

Under current law, unless an exception applies a secured party may perfect a security interest in negotiable documents by taking possession of the collateral. The bill limits this provision to tangible negotiable documents. (R.C. 1309.313(A).)

Except as otherwise provided in continuing law, a buyer, other than a secured party, tangible documents (instead of documents under current law) takes free of a security interest or agricultural lien if the buyer gives value and receives delivery of the collateral without knowledge of the security interest or agricultural lien and before it is perfected. A purchaser, other than a secured party, of the collateral takes free of the security interest or agricultural lien to the extent that, in reasonable reliance upon the incorrect information, the purchaser gives value and, in the case of chattel paper or documents, receives delivery of the collateral. The bill limits this provision to tangible

chattel paper or tangible documents. The bill states that a licensee of a general intangible or a buyer, other than a secured party, of electronic documents takes free of a security interest if the licensee or buyer gives value without knowledge of the security interest and before it is perfected. (R.C. 1309.317(B) and (D) and 1309.338(B).)

Leases Law--R.C. Chapter 1310.

Under current law, "buying," for the purpose of defining "buyer in ordinary course" under the Leases Law includes receiving goods or documents of title under a preexisting contract for sale. Under the bill, a person acquires goods or documents of title, rather than receives them, to incorporate electronic documents of title. Similarly, "leasing" for purposes of defining "lessee in ordinary course" includes acquiring, rather than receiving under current law, goods or documents of title under a preexisting lease contract. (R.C. 1310.01(A)(1) and (15).) Additionally, under continuing law, a lessee's failure to reserve rights when paying rent or other consideration against documents precludes recovery of the payment for defects apparent in, rather than on the face of as under current law, the documents (R.C. 1310.60(B)).

Technical changes

The bill makes numerous technical changes throughout the Revised Code, largely to reflect the revised numbering system used in R.C. Chapters 1301. and 1307. and to reflect the change in the term "warehouseman" to "warehouse."

COMMENT

Because the bill, to the extent possible, changes R.C. Chapters 1301. and 1307. to match the UCC as proposed by the National Conference of Commissioners on Uniform State Laws, the resulting language may not match the drafting rules and style of the Revised Code.

HISTORY

ACTION	DATE
Introduced	04-14-10
Reported, H. Financial Institutions, Real Estate, & Securities	---

TABLE I

Location in the bill of current Revised Code provisions that contain Articles 1 and 7 of the UCC

Current law section number	Bill section number
1301.01	1301.201
1301.01(Y) to (AA)	1301.202
1301.01(EF)	1301.206
1301.01(KK)(2)	1301.203
1301.01(RR)	1301.204
1301.02	1301.103(A)
1301.02(C)	1301.302
1301.03	1301.103(B)
1301.04	1301.104
1301.05	1301.301
1301.06	1301.305
1301.07	1301.106
1301.08	1301.307
1301.09	1301.304
1301.10(A)	1301.302(B)
1301.10(B)	1301.205
1301.11	1301.303
1301.12	Repealed by the bill
1301.13	1301.308
1301.14	1301.309
1301.15	1301.311
1301.16 ²	1333.72
1301.18	1333.73
1301.21	1319.02
1307.01	1307.102
1307.02	1307.103
1307.03	1307.103(A)

² R.C. 1301.16, 1301.18, and 1301.21 are not considered part of the UCC, and the bill relocates those sections to other chapters of the Revised Code.

Current law section number	Bill section number
1307.04	1307.104
1307.05	Repealed by the bill
1307.06	1307.201
1307.07	1301.202
1307.08	1307.203
1307.09	1307.204
1307.10	1307.205
1307.11	1307.206
1307.12	1307.207
1307.13	1307.208
1307.14	1307.209
1307.15	1307.210
1307.16	1307.301
1307.17	1307.302
1307.18	1307.303
1307.19	1307.304
1307.20	1307.305
1307.21	1307.306
1307.22	1307.307
1307.23	1307.308
1307.24	1307.309
1307.25	1307.401
1307.26	1307.402
1307.27	1307.403
1307.27(D)	1307.102(A)(9)
1307.28	1307.404
1307.29	1307.501
1307.30	1307.502
1307.31	1307.503
1307.32	1307.504
1307.33	1307.505
1307.34	1307.506
1307.35	1307.507

Current law section number	Bill section number
1307.36	1307.508
1307.37	1307.509
1307.38	1307.601
1307.39	1307.602
1307.40	1307.603

TABLE II

Location of the bill's provisions concerning Articles 1 and 7 of the UCC as contained in existing law

Section under bill	Section under current law
1301.101	New substantive section
1301.102	New substantive section
1301.103(A)	1301.02
1301.103(B)	1301.03
1301.104	1301.04
1301.105	New section
1301.106	New section
1301.107	New substantive section
1301.108	New substantive section
1301.201	1301.01
1301.202	1301.01(Y) to (AA)
1301.203	1301.01(KK)(2)
1301.204	1301.01(RR)
1301.205	1301.10
1301.206	1301.01(EE)
1301.301	1301.05
1301.302	1301.02(C)
1301.302(B)	1301.10(A)
1301.303	1301.11
1301.304	1301.09
1301.305	1301.06
1301.106	1301.07

Section under bill	Section under current law
1301.307	1301.08
1301.308	1301.13
1301.309	1301.14
1301.310	New substantive section
1301.311	1301.15
1307.101	New substantive section
1307.102	1307.01
1307.102(A)(9)	1307.27(D)
1307.103	1307.02
1307.103(A)	1307.03
1307.104	1307.04
1307.105	New substantive section
1307.106	New substantive section
1307.201	1307.06
1307.202	1307.07
1307.203	1307.08
1307.204	1307.09
1307.205	1307.10
1307.206	1307.11
1307.207	1307.12
1307.208	1307.13
1307.209	1307.14
1307.210	1307.15
1307.301	1307.16
1307.302	1307.17
1307.303	1307.18
1307.304	1307.19
1307.305	1307.20
1307.306	1307.21
1307.307	1307.22
1307.308	1307.23
1307.309	1307.24
1307.401	1307.25

Section under bill	Section under current law
1307.402	1307.26
1307.403	1307.27
1307.404	1307.28
1307.501	1307.29
1307.502	1307.30
1307.503	1307.31
1307.504	1307.32
1307.505	1307.33
1307.506	1307.34
1307.507	1307.35
1307.508	1307.36
1307.509	1307.37
1307.601	1307.38
1307.602	1307.39
1307.603	1307.40
1307.703	New substantive section
1307.704	New substantive section