

MAINE STATE LEGISLATURE

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LAWS
OF THE
STATE OF MAINE

AS PASSED BY THE
ONE HUNDRED AND SEVENTEENTH LEGISLATURE

SECOND SPECIAL SESSION
September 5, 1996 to September 7, 1996

ONE HUNDRED AND EIGHTEENTH LEGISLATURE

FIRST REGULAR SESSION
December 4, 1996 to March 27, 1997

FIRST SPECIAL SESSION
March 27, 1997 to June 20, 1997

THE GENERAL EFFECTIVE DATE FOR
FIRST REGULAR SESSION
NON-EMERGENCY LAWS IS
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NON-EMERGENCY LAWS IS
SEPTEMBER 19, 1997

PUBLISHED BY THE REVISOR OF STATUTES
IN ACCORDANCE WITH MAINE REVISED STATUTES ANNOTATED,
TITLE 3, SECTION 163-A, SUBSECTION 4.

J.S. McCarthy Company
Augusta, Maine
1997

be heard by a person supervising the time-out area.

Sec. 4. Adoption of rules for use of time-out procedures. The Commissioner of Education shall adopt rules by January 1, 1998 regarding the use of time-out procedures by school administrative units that are in accordance with the standards established by the Department of Human Services for licensing residential child care facilities and the Department of Mental Health and Mental Retardation and Substance Abuse Services for mental health treatment. These rules are major substantive rules as defined in the Maine Revised Statutes, Title 5, chapter 375, subchapter II-A.

See title page for effective date.

CHAPTER 429

S.P. 430 - L.D. 1378

An Act to Amend the Uniform Commercial Code as it Relates to Letters of Credit and Investment Securities

Be it enacted by the People of the State of Maine as follows:

PART A

Sec. A-1. 11 MRSA art. 5, as amended, is repealed.

Sec. A-2. 11 MRSA art. 5-A is enacted to read:

Article 5-A

Letters of Credit

§5-1101. Short title

This Article may be known and cited as the "Uniform Commercial Code -- Letters of Credit."

§5-1102. Definitions

(1) As used in this Article, unless the context otherwise indicates, the following terms have the following meanings.

(a) "Adviser" means a person who, at the request of the issuer, a confirmer or another adviser, notifies or requests another adviser to notify the beneficiary that a letter of credit has been issued, confirmed or amended.

(b) "Applicant" means a person at whose request or for whose account a letter of credit is issued. The term includes a person who requests an issuer to issue a letter of credit on behalf of another if the person making the request undertakes an obligation to reimburse the issuer.

(c) "Beneficiary" means a person who under the terms of a letter of credit is entitled to have its complying presentation honored. The term includes a person to whom drawing rights have been transferred under a transferable letter of credit.

(d) "Confirmer" means a nominated person who undertakes, at the request or with the consent of the issuer, to honor a presentation under a letter of credit issued by another.

(e) "Dishonor" of a letter of credit means failure to timely honor or to take an interim action, such as acceptance of a draft, that may be required by the letter of credit.

(f) "Document" means a written draft or other demand, document of title, investment security, certificate, invoice or other record, statement or representation of fact, law, right or opinion that:

(i) Is presented in a written or other medium permitted by the letter of credit or, unless prohibited by the letter of credit, by the standard practice referred to in section 5-1108, subsection (5); and

(ii) Is capable of being examined for compliance with the terms and conditions of the letter of credit.

(g) "Good faith" means honesty in fact in the conduct or transaction concerned.

(h) "Honor" of a letter of credit means performance of the issuer's undertaking in the letter of credit to pay or deliver an item of value and unless otherwise provided occurs:

(i) Upon payment;

(ii) If the letter of credit provides for acceptance, upon acceptance of a draft and, at maturity, its payment; or

(iii) If the letter of credit provides for incurring a deferred obligation, upon incurring the obligation and, at maturity, its performance.

(i) "Issuer" means a bank or other person that issues a letter of credit, but does not include an individual who makes an engagement for personal, family or household purposes.

(j) "Letter of credit" means a definite undertaking that satisfies the requirements of section 5-1104 by an issuer to a beneficiary at the request or for the account of an applicant or, in the case of a financial institution, to itself or for its own account, to honor a documentary presentation by payment or delivery of an item of value.

(k) "Nominated person" means a person whom the issuer:

(i) Designates or authorizes to pay, accept, negotiate or otherwise give value under a letter of credit; and

(ii) Undertakes by agreement or custom and practice to reimburse.

(l) "Presentation" means delivery of a document to an issuer or nominated person for honor or giving of value under a letter of credit.

(m) "Presenter" means a person making a presentation as or on behalf of a beneficiary or nominated person.

(n) "Record" means information that is inscribed on a tangible medium or that is stored in an electronic or other medium and is retrievable in perceivable form.

(o) "Successor of a beneficiary" means a person who succeeds to substantially all of the rights of a beneficiary by operation of law, including a corporation with or into which the beneficiary has been merged or consolidated, an administrator, executor, personal representative, trustee in bankruptcy, debtor in possession, liquidator and receiver.

(2) Definitions in other Articles applying to this Article and the sections in which they appear are:

"Accept" or "Acceptance"	section 3-1408
"Value"	sections 3-1303, 4-211-A.

(3) Article 1 contains certain additional general definitions and principles of construction and interpretation applicable throughout this Article.

§5-1103. Scope

(1) This Article applies to letters of credit and to certain rights and obligations arising out of transactions involving letters of credit.

(2) The statement of a rule in this Article does not by itself require, imply or negate application of the same or a different rule to a situation not provided for, or to a person not specified, in this Article.

(3) With the exception of this subsection, subsections (1) and (4), section 5-1102, subsection (1), paragraphs (i) and (j), section 5-1106, subsection (4), and section 5-1114, subsection (4), and except to the extent prohibited in section 1-102, subsection (3) and section 5-1117, subsection (4), the effect of this Article may be varied by agreement or by a provision stated or incorporated by reference in an undertaking. A term in an agreement or undertaking generally excusing liability or generally limiting remedies for failure to perform obligations is not sufficient to vary obligations prescribed by this Article.

(4) Rights and obligations of an issuer to a beneficiary or a nominated person under a letter of credit are independent of the existence, performance or nonperformance of a contract or arrangement out of which the letter of credit arises or which underlies it, including contracts or arrangements between the issuer and the applicant and between the applicant and the beneficiary.

§5-1104. Formal requirements

A letter of credit, confirmation, advice, transfer, amendment or cancellation may be issued in any form that is a record and is authenticated by a signature or in accordance with the agreement of the parties or the standard practice referred to in section 5-1108, subsection (5).

§5-1105. Consideration

Consideration is not required to issue, amend, transfer or cancel a letter of credit, advice or confirmation.

§5-1106. Issuance, amendment, cancellation and duration

(1) A letter of credit is issued and becomes enforceable according to its terms against the issuer when the issuer sends or otherwise transmits it to the person requested to advise or to the beneficiary. A letter of credit is revocable only if it so provides.

(2) After a letter of credit is issued, rights and obligations of a beneficiary, applicant, confirmer and issuer are not affected by an amendment or cancellation to which that person has not consented except to the extent the letter of credit provides that it is revocable or that the issuer may amend or cancel the letter of credit without that consent.

(3) If there is no stated expiration date or other provision that determines its duration, a letter of credit expires one year after its stated date of issuance or, if none is stated, after the date on which it is issued.

(4) A letter of credit that states that it is perpetual expires 5 years after its stated date of issuance or, if none is stated, after the date on which it is issued.

§5-1107. Confirmer, nominated person and adviser

(1) A confirmer is directly obligated on a letter of credit and has the rights and obligations of an issuer to the extent of its confirmation. The confirmer also has rights against and obligations to the issuer as if the issuer were an applicant and the confirmer had issued the letter of credit at the request and for the account of the issuer.

(2) A nominated person who is not a confirmer is not obligated to honor or otherwise give value for a presentation.

(3) A person requested to advise may decline to act as an adviser. An adviser that is not a confirmer is not obligated to honor or give value for a presentation. An adviser undertakes to the issuer and to the beneficiary accurately to advise the terms of the letter of credit, confirmation, amendment or advice received by that person and undertakes to the beneficiary to check the apparent authenticity of the request to advise. Even if the advice is inaccurate, the letter of credit, confirmation or amendment is enforceable as issued.

(4) A person who notifies a transferee beneficiary of the terms of a letter of credit, confirmation, amendment or advice has the rights and obligations of an adviser under subsection (3). The terms in the notice to the transferee beneficiary may differ from the terms in any notice to the transferor beneficiary to the extent permitted by the letter of credit, confirmation, amendment or advice received by the person who so notifies.

§5-1108. Issuer's rights and obligations

(1) Except as otherwise provided in section 5-1109, an issuer shall honor a presentation that, as determined by the standard practice referred to in subsection (5), appears on its face strictly to comply with the terms and conditions of the letter of credit. Except as otherwise provided in section 5-1113 and unless otherwise agreed with the applicant, an issuer shall dishonor a presentation that does not appear to comply.

(2) An issuer has a reasonable time after presentation, but not beyond the end of the 7th business day of the issuer after the day of its receipt of documents:

(a) To honor;

(b) To accept a draft or incur a deferred obligation, if the letter of credit provides for honor to

be completed more than 7 business days after presentation; or

(c) To give notice to the presenter of discrepancies in the presentation.

(3) Except as otherwise provided in subsection (4), an issuer is precluded from asserting as a basis for dishonor any discrepancy if timely notice is not given, or any discrepancy not stated in the notice if timely notice is given.

(4) Failure to give the notice specified in subsection (2) or to mention fraud, forgery or expiration in the notice does not preclude the issuer from asserting as a basis for dishonor, fraud or forgery as described in section 5-1109, subsection (1) or expiration of the letter of credit before presentation.

(5) An issuer shall observe standard practice of financial institutions that regularly issue letters of credit. Determination of the issuer's observance of the standard practice is a matter of interpretation for the court. The court shall offer the parties a reasonable opportunity to present evidence of the standard practice.

(6) An issuer is not responsible for:

(a) The performance or nonperformance of the underlying contract, arrangement or transaction;

(b) An act or omission of others; or

(c) Observance or knowledge of the usage of a particular trade other than the standard practice referred to in subsection (5).

(7) If an undertaking constituting a letter of credit under section 5-1102, subsection (1), paragraph (j) contains nondocumentary conditions, an issuer shall disregard the nondocumentary conditions and treat them as if they were not stated.

(8) An issuer that has dishonored a presentation shall return the documents or hold them at the disposal of, and send advice to that effect to, the presenter.

(9) An issuer that has honored a presentation as permitted or required by this Article:

(a) Is entitled to be reimbursed by the applicant in immediately available funds not later than the date of its payment of funds;

(b) Takes the documents free of claims of the beneficiary or presenter;

(c) Is precluded from asserting a right of recourse on a draft under sections 3-1414 and 3-1415;

(d) Except as otherwise provided in sections 5-1110 and 5-1117, is precluded from restitution of money paid or other value given by mistake to the extent the mistake concerns discrepancies in the documents or tender that are apparent on the face of the presentation; and

(e) Is discharged to the extent of its performance under the letter of credit unless the issuer honored a presentation in which a required signature of a beneficiary was forged.

§5-1109. Fraud and forgery

(1) If a presentation is made that appears on its face strictly to comply with the terms and conditions of the letter of credit, but a required document is forged or materially fraudulent, or honor of the presentation would facilitate a material fraud by the beneficiary on the issuer or applicant:

(a) The issuer shall honor the presentation, if honor is demanded by:

(i) A nominated person who has given value in good faith and without notice of forgery or material fraud;

(ii) A confirmer who has honored its confirmation in good faith;

(iii) A holder in due course of a draft drawn under the letter of credit that was taken after acceptance by the issuer or nominated person; or

(iv) An assignee of the issuer's or nominated person's deferred obligation that was taken for value and without notice of forgery or material fraud after the obligation was incurred by the issuer or nominated person; and

(b) The issuer, acting in good faith, may honor or dishonor the presentation in any other case.

(2) If an applicant claims that a required document is forged or materially fraudulent or that honor of the presentation would facilitate a material fraud by the beneficiary on the issuer or applicant, a court of competent jurisdiction may temporarily or permanently enjoin the issuer from honoring a presentation or grant similar relief against the issuer or other persons only if the court finds that:

(a) The relief is not prohibited under the law applicable to an accepted draft or deferred obligation incurred by the issuer;

(b) A beneficiary, issuer or nominated person who may be adversely affected is adequately

protected against loss that it may suffer because the relief is granted;

(c) All of the conditions to entitle a person to the relief under the law of this State have been met; and

(d) on the basis of the information submitted to the court, the applicant is more likely than not to succeed under its claim of forgery or material fraud and the person demanding honor does not qualify for protection under subsection (1), paragraph (a).

§5-1110. Warranties

(1) If its presentation is honored, the beneficiary warrants to:

(a) The issuer, any other person to whom presentation is made and the applicant that there is no fraud or forgery of the kind described in section 5-1109, subsection (1); and

(b) The applicant that the drawing does not violate any agreement between the applicant and beneficiary or any other agreement intended by them to be augmented by the letter of credit.

(2) The warranties in subsection (1) are in addition to warranties arising under Articles 3-A, 4, 7 and 8-A because of the presentation or transfer of documents covered by any of those Articles.

§5-1111. Remedies

(1) If an issuer wrongfully dishonors or repudiates its obligation to pay money under a letter of credit before presentation, the beneficiary, successor or nominated person presenting on its own behalf may recover from the issuer the amount that is the subject of the dishonor or repudiation. If the issuer's obligation under the letter of credit is not for the payment of money, the claimant may obtain specific performance or, at the claimant's election, recover an amount equal to the value of performance from the issuer. In either case, the claimant may also recover incidental but not consequential damages. The claimant is not obligated to take action to avoid damages that might be due from the issuer under this subsection. If, although not obligated to do so, the claimant avoids damages, the claimant's recovery from the issuer must be reduced by the amount of damages avoided. The issuer has the burden of proving the amount of damages avoided. In the case of repudiation, the claimant need not present any document.

(2) If an issuer wrongfully dishonors a draft or demand presented under a letter of credit or honors a draft or demand in breach of its obligation to the applicant, the applicant may recover damages

resulting from the breach, including incidental but not consequential damages, less any amount saved as a result of the breach.

(3) If an adviser or nominated person other than a confirmer breaches an obligation under this Article or an issuer breaches an obligation not covered in subsection (1) or (2), a person to whom the obligation is owed may recover damages resulting from the breach, including incidental but not consequential damages, less any amount saved as a result of the breach. To the extent of the confirmation, a confirmer has the liability of an issuer specified in this subsection and subsections (1) and (2).

(4) An issuer, nominated person or adviser who is found liable under subsection (1), (2) or (3) shall pay interest on the amount owed from the date of wrongful dishonor or other appropriate date.

(5) Reasonable attorney's fees and other expenses of litigation must be awarded to the prevailing party in an action in which a remedy is sought under this Article.

(6) Damages that would otherwise be payable by a party for breach of an obligation under this Article may be liquidated by agreement or undertaking, but only in an amount or by a formula that is reasonable in light of the harm anticipated.

§5-1112. Transfer of letter of credit

(1) Except as otherwise provided in section 5-1113, unless a letter of credit provides that it is transferable, the right of a beneficiary to draw or otherwise demand performance under a letter of credit may not be transferred.

(2) Even if a letter of credit provides that it is transferable, the issuer may refuse to recognize or carry out a transfer if:

(a) the transfer would violate applicable law; or

(b) the transferor or transferee has failed to comply with any requirement stated in the letter of credit or any other requirement relating to transfer imposed by the issuer that is within the standard practice referred to in section 5-1108, subsection (5) or is otherwise reasonable under the circumstances.

§5-1113. Transfer by operation of law

(1) A successor of a beneficiary may consent to amendments, sign and present documents and receive payment or other items of value in the name of the beneficiary without disclosing its status as a successor.

(2) A successor of a beneficiary may consent to amendments, sign and present documents and receive

payment or other items of value in its own name as the disclosed successor of the beneficiary. Except as otherwise provided in subsection (5), an issuer shall recognize a disclosed successor of a beneficiary as beneficiary in full substitution for its predecessor upon compliance with the requirements for recognition by the issuer of a transfer of drawing rights by operation of law under the standard practice referred to in section 5-1108, subsection (5) or, in the absence of such a practice, compliance with other reasonable procedures sufficient to protect the issuer.

(3) An issuer is not obliged to determine whether a purported successor is a successor of a beneficiary or whether the signature of a purported successor is genuine or authorized.

(4) Honor of a purported successor's apparently complying presentation under subsection (1) or (2) has the consequences specified in section 5-1108, subsection (9) even if the purported successor is not the successor of a beneficiary. Documents signed in the name of the beneficiary or of a disclosed successor by a person who is neither the beneficiary nor the successor of the beneficiary are forged documents for the purposes of section 5-1109.

(5) An issuer whose rights of reimbursement are not covered by subsection (4) or substantially similar law and any confirmer or nominated person may decline to recognize a presentation under subsection (2).

(6) A beneficiary whose name is changed after the issuance of a letter of credit has the same rights and obligations as a successor of a beneficiary under this section.

§5-1114. Assignment of proceeds

(1) In this section, "proceeds of a letter of credit" means the cash, check, accepted draft or other item of value paid or delivered upon honor or giving of value by the issuer or any nominated person under the letter of credit. The term does not include a beneficiary's drawing rights or documents presented by the beneficiary.

(2) A beneficiary may assign its right to part or all of the proceeds of a letter of credit. The beneficiary may do so before presentation as a present assignment of its right to receive proceeds contingent upon its compliance with the terms and conditions of the letter of credit.

(3) An issuer or nominated person need not recognize an assignment of proceeds of a letter of credit until it consents to the assignment.

(4) An issuer or nominated person has no obligation to give or withhold its consent to an

assignment of proceeds of a letter of credit, but consent may not be unreasonably withheld if the assignee possesses and exhibits the letter of credit and presentation of the letter of credit is a condition to honor.

(5) Rights of a transferee beneficiary or nominated person are independent of the beneficiary's assignment of the proceeds of a letter of credit and are superior to the assignee's right to the proceeds.

(6) Neither the rights recognized by this section between an assignee and an issuer, transferee beneficiary or nominated person nor the issuer's or nominated person's payment of proceeds to an assignee or a 3rd person affect the rights between the assignee and any person other than the issuer, transferee beneficiary or nominated person. The mode of creating and perfecting a security interest in or granting an assignment of a beneficiary's rights to proceeds is governed by Article 9 or other law. Against persons other than the issuer, transferee beneficiary or nominated person, the rights and obligations arising upon the creation of a security interest or other assignment of a beneficiary's right to proceeds and its perfection are governed by Article 9 or other law.

§5-1115. Statute of limitations

An action to enforce a right or obligation arising under this Article must be commenced within one year after the expiration date of the relevant letter of credit or one year after the claim for relief or cause of action accrues, whichever occurs later. A claim for relief or cause of action accrues when the breach occurs, regardless of the aggrieved party's lack of knowledge of the breach.

§5-1116. Choice of law and forum

(1) The liability of an issuer, nominated person or adviser for action or omission is governed by the law of the jurisdiction chosen by an agreement in the form of a record signed or otherwise authenticated by the affected parties in the manner provided in section 5-1104 or by a provision in the person's letter of credit, confirmation or other undertaking. The jurisdiction whose law is chosen need not bear any relation to the transaction.

(2) Unless subsection (1) applies, the liability of an issuer, nominated person or adviser for action or omission is governed by the law of the jurisdiction in which the person is located. The person is considered to be located at the address indicated in the person's undertaking. If more than one address is indicated, the person is considered to be located at the address from which the person's undertaking was issued. For the purpose of jurisdiction, choice of law and recognition of interbranch letters of credit, but not enforcement of a judgment, all branches of a bank are

considered separate juridical entities and a bank is considered to be located at the place where its relevant branch is considered to be located under this subsection.

(3) Except as otherwise provided in this subsection, the liability of an issuer, nominated person or adviser is governed by any rules of custom or practice, such as the Uniform Customs and Practice for Documentary Credits, to which the letter of credit, confirmation or other undertaking is expressly made subject. If this Article would govern the liability of an issuer, nominated person, or adviser under subsection (1) or (2), the relevant undertaking incorporates rules of custom or practice and there is conflict between this article and those rules as applied to that undertaking, those rules govern except to the extent of any conflict with the nonvariable provisions specified in section 5-1103, subsection (3).

(4) If there is conflict between this Article and Article 3-A, 4, 4-A or 9, this Article governs.

(5) The forum for settling disputes arising out of an undertaking within this Article may be chosen in the manner and with the binding effect that governing law may be chosen in accordance with subsection (1).

§5-1117. Subrogation of issuer, applicant and nominated person

(1) An issuer that honors a beneficiary's presentation is subrogated to the rights of the beneficiary to the same extent as if the issuer were a secondary obligor of the underlying obligation owed to the beneficiary and of the applicant to the same extent as if the issuer were the secondary obligor of the underlying obligation owed to the applicant.

(2) An applicant that reimburses an issuer is subrogated to the rights of the issuer against any beneficiary, presenter or nominated person to the same extent as if the applicant were the secondary obligor of the obligations owed to the issuer and has the rights of subrogation of the issuer to the rights of the beneficiary stated in subsection (1).

(3) A nominated person who pays or gives value against a draft or demand presented under a letter of credit is subrogated to the rights of:

(a) The issuer against the applicant to the same extent as if the nominated person were a secondary obligor of the obligation owed to the issuer by the applicant;

(b) The beneficiary to the same extent as if the nominated person were a secondary obligor of the underlying obligation owed to the beneficiary; and

(c) The applicant to the same extent as if the nominated person were a secondary obligor of the underlying obligation owed to the applicant.

(4) Notwithstanding any agreement or term to the contrary, the rights of subrogation stated in subsections (1) and (2) do not arise until the issuer honors the letter of credit or otherwise pays and the rights in subsection (3) do not arise until the nominated person pays or otherwise gives value. Until then, the issuer, nominated person, and the applicant do not derive under this section present or prospective rights forming the basis of a claim, defense or excuse.

Sec. A-3. Savings clause. A transaction arising out of or associated with a letter of credit that was issued before the effective date of this Part and the rights, obligations and interests flowing from that transaction are governed by any statute or other law amended or repealed by this Part as if repeal or amendment had not occurred and may be terminated, completed, consummated or enforced under that statute or other law.

Sec. A-4. Applicability. This Part applies to a letter of credit that is issued on or after the effective date of this Part. This Part does not apply to a transaction, event, obligation or duty arising out of or associated with a letter of credit that was issued before the effective date of this Part.

PART B

Sec. B-1. 11 MRSA art. 8, as amended, is repealed.

Sec. B-2. 11 MRSA art. 8-A is enacted to read:

Article 8-A

Investment Securities

PART 1

SHORT TITLE AND GENERAL MATTERS

§8-1101. Short title

This Article may be known and cited as the "Uniform Commercial Code - Investment Securities."

§8-1102. Definitions

(1) As used in this Article, unless the context otherwise indicates, the following terms have the following meanings.

(a) "Adverse claim" means a claim that a claimant has a property interest in a financial asset and that it is a violation of the rights of the claimant

for another person to hold, transfer or deal with the financial asset.

(b) "Bearer form," as applied to a certificated security, means a form in which the security is payable to the bearer of the security certificate according to its terms but not by reason of an indorsement.

(c) "Broker" means a person defined as a broker or dealer under the federal securities laws, but without excluding a bank acting in that capacity.

(d) "Certificated security" means a security that is represented by a certificate.

(e) "Clearing corporation" means:

(i) A person that is registered as a "clearing agency" under the federal securities laws;

(ii) A federal reserve bank; or

(iii) Any other person that provides clearance or settlement services with respect to financial assets that would require it to register as a clearing agency under the federal securities laws but for an exclusion or exemption from the registration requirement, if its activities as a clearing corporation, including adoption of rules, are subject to regulation by a federal or state governmental authority.

(f) "Communicate" means to:

(i) Send a signed writing; or

(ii) Transmit information by any mechanism agreed upon by the persons transmitting and receiving the information.

(g) "Entitlement holder" means a person identified in the records of a securities intermediary as the person having a security entitlement against the securities intermediary. If a person acquires a security entitlement by virtue of section 8-1501, subsection (2), paragraph (b) or (c), that person is the entitlement holder.

(h) "Entitlement order" means a notification communicated to a securities intermediary directing transfer or redemption of a financial asset to which the entitlement holder has a security entitlement.

(i) "Financial asset," except as otherwise provided in section 8-1103, means:

(i) A security;

(ii) An obligation of a person or a share, participation or other interest in a person or in property or an enterprise of a person that is, or is of a type, dealt in or traded on financial markets or that is recognized in any area in which it is issued or dealt in as a medium for investment; or

(iii) Any 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 this Article.

As context requires, the term means either the interest itself or the means by which a person's claim to it is evidenced, including a certificated or uncertificated security, a security certificate or a security entitlement.

(j) "Good faith," for purposes of the obligation of good faith in the performance or enforcement of contracts or duties within this Article, means honesty in fact and the observance of reasonable commercial standards of fair dealing.

(k) "Indorsement" means a signature that alone or accompanied by other words is made on a security certificate in registered form or on a separate document for the purpose of assigning, transferring or redeeming the security or granting a power to assign, transfer or redeem it.

(l) "Instruction" means a notification communicated to the issuer of an uncertificated security that directs that the transfer of the security be registered or that the security be redeemed.

(m) "Registered form," as applied to a certificated security, means a form in which:

(i) The security certificate specifies a person entitled to the security; and

(ii) A transfer of the security may be registered upon books maintained for that purpose by or on behalf of the issuer or the security certificate so states.

(n) "Securities intermediary" means:

(i) A clearing corporation; or

(ii) A person, including a bank or broker, that in the ordinary course of its business maintains securities accounts for others and is acting in that capacity.

(o) "Security," except as otherwise provided in section 8-1103, means an obligation of an issuer

or a share, participation or other interest in an issuer or in property or an enterprise of an issuer:

(i) That is represented by a security certificate in bearer or registered form or the transfer of which may be registered upon books maintained for that purpose by or on behalf of the issuer;

(ii) That is one of a class or series or by its terms is divisible into a class or series of shares, participations, interests or obligations; and

(iii) That:

(A) Is, or is of a type, dealt in or traded on securities exchanges or securities markets; or

(B) Is a medium for investment and by its terms expressly provides that it is a security governed by this Article.

(p) "Security certificate" means a certificate representing a security.

(q) "Security entitlement" means the rights and property interest of an entitlement holder with respect to a financial asset specified in Part 5.

(r) "Uncertificated security" means a security that is not represented by a certificate.

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

<u>Appropriate person</u>	<u>Section 8-1107</u>
<u>Control</u>	<u>Section 8-1106</u>
<u>Delivery</u>	<u>Section 8-1301</u>
<u>Investment company security</u>	<u>Section 8-1103</u>
<u>Issuer</u>	<u>Section 8-1201</u>
<u>Overissue</u>	<u>Section 8-1210</u>
<u>Protected purchaser</u>	<u>Section 8-1303</u>
<u>Securities account</u>	<u>Section 8-1501</u>

(3) In addition, Article 1 contains general definitions and principles of construction and interpretation applicable throughout this Article.

(4) The characterization of a person, business or transaction for purposes of this Article does not determine the characterization of the person, business or transaction for purposes of any other law, regulation or rule.

§8-1103. Rules for determining whether certain obligations and interests are securities or financial assets

(1) A share or similar equity interest issued by a corporation, business trust, joint stock company or similar entity is a security.

(2) An investment company security is a security. "Investment company security" means a share or similar equity interest issued by an entity that is registered as an investment company under the federal investment company laws, an interest in a unit investment trust that is so registered or a face-amount certificate issued by a face-amount certificate company that is so registered. "Investment company security" does not include an insurance policy or endowment policy or annuity contract issued by an insurance company.

(3) An interest in a partnership or limited liability company is not a security unless it is dealt in or traded on securities exchanges or in securities markets, its terms expressly provide that it is a security governed by this Article or it is an investment company security. An interest in a partnership or limited liability company is a financial asset if it is held in a securities account.

(4) A writing that is a security certificate is governed by this Article and not by Article 3-A, even though it also meets the requirements of that Article. A negotiable instrument governed by Article 3-A is a financial asset if it is held in a securities account.

(5) An option or similar obligation issued by a clearing corporation to its participants is not a security, but is a financial asset.

(6) A commodity contract, as defined in section 9-115, is not a security or a financial asset.

§8-1104. Acquisition of security or financial asset or interest in a security or financial asset

(1) A person acquires a security or an interest in a security, under this Article if:

(a) The person is a purchaser to whom a security is delivered pursuant to section 8-1301; or

(b) The person acquires a security entitlement to the security pursuant to section 8-1501.

(2) A person acquires a financial asset, other than a security or an interest in a security, under this Article if the person acquires a security entitlement to the financial asset.

(3) A person who acquires a security entitlement to a security or other financial asset has the rights specified in Part 5 but is a purchaser of any security,

security entitlement or other financial asset held by the securities intermediary only to the extent provided in Section 8-1503.

(4) Unless the context shows that a different meaning is intended, a person who is required by other law, regulation, rule or agreement to transfer, deliver, present, surrender, exchange or otherwise put in the possession of another person a security or financial asset satisfies that requirement by causing the other person to acquire an interest in the security or financial asset pursuant to subsection (1) or (2).

§8-1105. Notice of adverse claim

(1) A person has notice of an adverse claim if:

(a) The person knows of the adverse claim;

(b) The person is aware of facts sufficient to indicate that there is a significant probability that the adverse claim exists and deliberately avoids information that would establish the existence of the adverse claim; or

(c) The person has a duty, imposed by statute or regulation, to investigate whether an adverse claim exists, and the investigation so required would establish the existence of the adverse claim.

(2) Having knowledge that a financial asset or interest in a financial asset is or has been transferred by a representative imposes no duty of inquiry into the rightfulness of a transaction and is not notice of an adverse claim. A person who knows that a representative has transferred a financial asset or interest in a financial asset in a transaction that is, or whose proceeds are being used, for the individual benefit of the representative or otherwise in breach of duty has notice of an adverse claim.

(3) An act or event that creates a right to immediate performance of the principal obligation represented by a security certificate or sets a date on or after which the certificate is to be presented or surrendered for redemption or exchange does not itself constitute notice of an adverse claim except in the case of a transfer more than:

(a) One year after a date set for presentment or surrender for redemption or exchange; or

(b) Six months after a date set for payment of money against presentation or surrender of the certificate, if money was available for payment on that date.

(4) A purchaser of a certificated security has notice of an adverse claim if the security certificate:

(a) Whether in bearer or registered form, has been indorsed "for collection" or "for surrender" or for some other purpose not involving transfer; or

(b) Is in bearer form and has on it an unambiguous statement that it is the property of a person other than the transferor, but the mere writing of a name on the certificate is not such a statement.

(5) Filing of a financing statement under Article 9 is not notice of an adverse claim to a financial asset.

§8-1106. Control

(1) A purchaser has control of a certificated security in bearer form if the certificated security is delivered to the purchaser.

(2) A purchaser has control of a certificated security in registered form if the certificated security is delivered to the purchaser, and:

(a) The certificate is indorsed to the purchaser or in blank by an effective indorsement; or

(b) The certificate is registered in the name of the purchaser upon original issue or registration of transfer by the issuer.

(3) A purchaser has control of an uncertificated security if:

(a) The uncertificated security is delivered to the purchaser; or

(b) The issuer has agreed that it will comply with instructions originated by the purchaser without further consent by the registered owner.

(4) A purchaser has control of a security entitlement if:

(a) The purchaser becomes the entitlement holder; or

(b) The securities intermediary has agreed that it will comply with entitlement orders originated by the purchaser without further consent by the entitlement holder.

(5) If an interest in a security entitlement is granted by the entitlement holder to the entitlement holder's own securities intermediary, the securities intermediary has control.

(6) A purchaser who has satisfied the requirements of subsection (3), paragraph (b) or subsection (4), paragraph (b) has control even if the registered owner in the case of subsection (3), paragraph (b) or the entitlement holder in the case of subsection (4), paragraph (b) retains the right to make substitutions

for the uncertificated security or security entitlement, to originate instructions or entitlement orders to the issuer or securities intermediary or otherwise to deal with the uncertificated security or security entitlement.

(7) An issuer or a securities intermediary may not enter into an agreement of the kind described in subsection (3), paragraph (b) or subsection (4), paragraph (b) without the consent of the registered owner or entitlement holder, but an issuer or a securities intermediary is not required to enter into such an agreement even though the registered owner or entitlement holder so directs. An issuer or securities intermediary that has entered into such an agreement is not required to confirm the existence of the agreement to another party unless requested to do so by the registered owner or entitlement holder.

§8-1107. Whether indorsement, instruction or entitlement order is effective

(1) "Appropriate person" means:

(a) With respect to an indorsement, the person specified by a security certificate or by an effective special indorsement to be entitled to the security;

(b) With respect to an instruction, the registered owner of an uncertificated security;

(c) With respect to an entitlement order, the entitlement holder;

(d) If the person designated in paragraph (a), (b) or (c) is deceased, the designated person's successor taking under other law or the designated person's personal representative acting for the estate of the decedent; or

(e) If the person designated in paragraph (a), (b), or (c) lacks capacity, the designated person's guardian, conservator or other similar representative who has power under other law to transfer the security or financial asset.

(2) An indorsement, instruction or entitlement order is effective if:

(a) It is made by the appropriate person;

(b) It is made by a person who has power under the law of agency to transfer the security or financial asset on behalf of the appropriate person, including, in the case of an instruction or entitlement order, a person who has control under Section 8-1106, subsection (3), paragraph (b) or subsection (4), paragraph (b); or

(c) The appropriate person has ratified it or is otherwise precluded from asserting its ineffectiveness.

(3) An indorsement, instruction or entitlement order made by a representative is effective even if:

(a) The representative has failed to comply with a controlling instrument or with the law of the state having jurisdiction of the representative relationship, including any law requiring the representative to obtain court approval of the transaction; or

(b) The representative's action in making the indorsement, instruction or entitlement order or using the proceeds of the transaction is otherwise a breach of duty.

(4) If a security is registered in the name of or specially indorsed to a person described as a representative, or if a securities account is maintained in the name of a person described as a representative, an indorsement, instruction or entitlement order made by the person is effective even though the person is no longer serving in the described capacity.

(5) Effectiveness of an indorsement, instruction or entitlement order is determined as of the date the indorsement, instruction or entitlement order is made, and an indorsement, instruction or entitlement order does not become ineffective by reason of any later change of circumstances.

§8-1108. Warranties in direct holding

(1) A person who transfers a certificated security to a purchaser for value warrants to the purchaser and an indorser, if the transfer is by indorsement, warrants to any subsequent purchaser that:

(a) The certificate is genuine and has not been materially altered;

(b) The transferor or indorser does not know of any fact that might impair the validity of the security;

(c) There is no adverse claim to the security;

(d) The transfer does not violate any restriction on transfer;

(e) If the transfer is by indorsement, the indorsement is made by an appropriate person, or, if the indorsement is by an agent, the agent has actual authority to act on behalf of the appropriate person; and

(f) The transfer is otherwise effective and rightful.

(2) A person who originates an instruction for registration of transfer of an uncertificated security to a purchaser for value warrants to the purchaser that:

(a) The instruction is made by an appropriate person or, if the instruction is by an agent, the agent has actual authority to act on behalf of the appropriate person;

(b) The security is valid;

(c) There is no adverse claim to the security; and

(d) At the time the instruction is presented to the issuer:

(i) The purchaser will be entitled to the registration of transfer;

(ii) The transfer will be registered by the issuer free from all liens, security interests, restrictions and claims other than those specified in the instruction;

(iii) The transfer will not violate any restriction on transfer; and

(iv) The requested transfer will otherwise be effective and rightful.

(3) A person who transfers an uncertificated security to a purchaser for value and does not originate an instruction in connection with the transfer warrants that:

(a) The uncertificated security is valid;

(b) There is no adverse claim to the security;

(c) The transfer does not violate any restriction on transfer; and

(d) The transfer is otherwise effective and rightful.

(4) A person who indorses a security certificate warrants to the issuer that:

(a) There is no adverse claim to the security; and

(b) The indorsement is effective.

(5) A person who originates an instruction for registration of transfer of an uncertificated security warrants to the issuer that:

(a) The instruction is effective; and

(b) At the time the instruction is presented to the issuer the purchaser will be entitled to the registration of transfer.

(6) A person who presents a certificated security for registration of transfer or for payment or exchange warrants to the issuer that the person is entitled to the registration, payment or exchange, but a purchaser for value and without notice of adverse claims to whom

transfer is registered warrants only that the person has no knowledge of any unauthorized signature in a necessary indorsement.

(7) If a person acts as agent of another in delivering a certificated security to a purchaser, the identity of the principal was known to the person to whom the certificate was delivered and the certificate delivered by the agent was received by the agent from the principal or received by the agent from another person at the direction of the principal, the person delivering the security certificate warrants only that the delivering person has authority to act for the principal and does not know of any adverse claim to the certificated security.

(8) A secured party who redelivers a security certificate received or, after payment and on order of the debtor delivers the security certificate to another person, makes only the warranties of an agent under subsection (7).

(9) Except as otherwise provided in subsection (7), a broker acting for a customer makes to the issuer and a purchaser the warranties provided in subsections (1) to (6). A broker that delivers a security certificate to its customer or causes its customer to be registered as the owner of an uncertificated security makes to the customer the warranties provided in subsection (1) or (2) and has the rights and privileges of a purchaser under this section. The warranties of and in favor of the broker acting as an agent are in addition to applicable warranties given by and in favor of the customer.

§8-1109. Warranties in indirect holding

(1) A person who originates an entitlement order to a securities intermediary warrants to the securities intermediary that:

(a) The entitlement order is made by an appropriate person or, if the entitlement order is by an agent, the agent has actual authority to act on behalf of the appropriate person; and

(b) There is no adverse claim to the security entitlement.

(2) A person who delivers a security certificate to a securities intermediary for credit to a securities account or originates an instruction with respect to an uncertificated security directing that the uncertificated security be credited to a securities account makes to the securities intermediary the warranties specified in section 8-1108, subsection (1) or (2).

(3) If a securities intermediary delivers a security certificate to its entitlement holder or causes its entitlement holder to be registered as the owner of an uncertificated security, the securities intermediary

makes to the entitlement holder the warranties specified in section 8-1108, subsection (1) or (2).

§8-1110. Applicability; choice of law

(1) The local law of the issuer's jurisdiction, as specified in subsection (4), governs:

(a) The validity of a security;

(b) The rights and duties of the issuer with respect to registration of transfer;

(c) The effectiveness of registration of transfer by the issuer;

(d) Whether the issuer owes any duties to an adverse claimant to a security; and

(e) Whether an adverse claim can be asserted against a person to whom transfer of a certificated or uncertificated security is registered or a person who obtains control of an uncertificated security.

(2) The local law of the securities intermediary's jurisdiction, as specified in subsection (5), governs:

(a) Acquisition of a security entitlement from the securities intermediary;

(b) The rights and duties of the securities intermediary and entitlement holder arising out of a security entitlement;

(c) Whether the securities intermediary owes any duties to an adverse claimant to a security entitlement; and

(d) Whether an adverse claim can be asserted against a person who acquires a security entitlement from the securities intermediary or a person who purchases a security entitlement or interest in a security entitlement from an entitlement holder.

(3) The local law of the jurisdiction in which a security certificate is located at the time of delivery governs whether an adverse claim can be asserted against a person to whom the security certificate is delivered.

(4) "Issuer's jurisdiction" means the jurisdiction under which the issuer of the security is organized or, if permitted by the law of that jurisdiction, the law of another jurisdiction specified by the issuer. An issuer organized under the law of this State may specify the law of another jurisdiction as the law governing the matters specified in subsection (1), paragraphs (b) to (e).

(5) The following rules determine a "securities intermediary's jurisdiction" for purposes of this section.

(a) If an agreement between the securities intermediary and its entitlement holder specifies that it is governed by the law of a particular jurisdiction, that jurisdiction is the securities intermediary's jurisdiction.

(b) If an agreement between the securities intermediary and its entitlement holder does not specify the governing law as provided in paragraph (a) but expressly specifies that the securities account is maintained at an office in a particular jurisdiction, that jurisdiction is the securities intermediary's jurisdiction.

(c) If an agreement between the securities intermediary and its entitlement holder does not specify a jurisdiction as provided in paragraph (a) or (b), the securities intermediary's jurisdiction is the jurisdiction in which is located the office identified in an account statement as the office serving the entitlement holder's account.

(d) If an agreement between the securities intermediary and its entitlement holder does not specify a jurisdiction as provided in paragraph (a) or (b) and an account statement does not identify an office serving the entitlement holder's account as provided in paragraph (c), the securities intermediary's jurisdiction is the jurisdiction in which is located the chief executive office of the securities intermediary.

(6) A securities intermediary's jurisdiction is not determined by the physical location of certificates representing financial assets or by the jurisdiction in which is organized the issuer of the financial asset with respect to which an entitlement holder has a security entitlement or by the location of facilities for data processing or other record keeping concerning the account.

§8-1111. Clearing corporation rules

A rule adopted by a clearing corporation governing rights and obligations among the clearing corporation and its participants in the clearing corporation is effective even if the rule conflicts with this Act and affects another party who does not consent to the rule.

§8-1112. Creditor's legal process

(1) The interest of a debtor in a certificated security may be reached by a creditor only by actual seizure of the security certificate by the officer making the attachment or levy, except as otherwise provided in subsection (4). A certificated security for which the

certificate has been surrendered to the issuer may be reached by a creditor by legal process upon the issuer.

(2) The interest of a debtor in an uncertificated security may be reached by a creditor only by legal process upon the issuer at its chief executive office in the United States, except as otherwise provided in subsection (4).

(3) The interest of a debtor in a security entitlement may be reached by a creditor only by legal process upon the securities intermediary with whom the debtor's securities account is maintained, except as otherwise provided in subsection (4).

(4) The interest of a debtor in a certificated security for which the certificate is in the possession of a secured party, or in an uncertificated security registered in the name of a secured party or a security entitlement maintained in the name of a secured party, may be reached by a creditor by legal process upon the secured party.

(5) A creditor whose debtor is the owner of a certificated security, uncertificated security or security entitlement is entitled to aid from a court of competent jurisdiction, by injunction or otherwise, in reaching the certificated security, uncertificated security or security entitlement or in satisfying the claim by means allowed at law or in equity in regard to property that can not readily be reached by other legal process.

§8-1113. Statute of frauds inapplicable

A contract or modification of a contract for the sale or purchase of a security is enforceable whether or not there is a writing signed or record authenticated by a party against whom enforcement is sought, even if the contract or modification is not capable of performance within one year of its making.

§8-1114. Evidentiary rules concerning certificated securities

(1) The following rules apply in an action on a certificated security against the issuer.

(a) Unless specifically denied in the pleadings, each signature on a security certificate or in a necessary indorsement is admitted.

(b) If the effectiveness of a signature is put in issue, the burden of establishing effectiveness is on the party claiming under the signature, but the signature is presumed to be genuine or authorized.

(c) If signatures on a security certificate are admitted or established, production of the certificate entitles a holder to recover on it unless the

defendant establishes a defense or a defect going to the validity of the security.

(d) If it is shown that a defense or defect exists, the plaintiff has the burden of establishing that the plaintiff or some person under whom the plaintiff claims is a person against whom the defense or defect cannot be asserted.

§8-1115. Securities intermediary and others not liable to adverse claimant

(1) A securities intermediary that has transferred a financial asset pursuant to an effective entitlement order or a broker or other agent or bailee that has dealt with a financial asset at the direction of its customer or principal is not liable to a person having an adverse claim to the financial asset, unless the securities intermediary or broker or other agent or bailee:

(a) Took the action after it had been served with an injunction, restraining order or other legal process enjoining it from doing so, issued by a court of competent jurisdiction, and had a reasonable opportunity to act on the injunction, restraining order or other legal process;

(b) Acted in collusion with the wrongdoer in violating the rights of the adverse claimant; or

(c) In the case of a security certificate that has been stolen, acted with notice of the adverse claim.

§8-1116. Securities intermediary as purchaser for value

A securities intermediary that receives a financial asset and establishes a security entitlement to the financial asset in favor of an entitlement holder is a purchaser for value of the financial asset. A securities intermediary that acquires a security entitlement to a financial asset from another securities intermediary acquires the security entitlement for value if the securities intermediary acquiring the security entitlement establishes a security entitlement to the financial asset in favor of an entitlement holder.

PART 2

ISSUE AND ISSUER

§8-1201. Issuer

(1) With respect to an obligation on or a defense to a security, an "issuer" includes a person that:

(a) Places or authorizes the placing of its name on a security certificate, other than as authenticating trustee, registrar, transfer agent or the like, to evidence a share, participation or other interest in its property or in an enterprise, or to evidence

its duty to perform an obligation represented by the certificate;

(b) Creates a share, participation or other interest in its property or in an enterprise, or undertakes an obligation, that is an uncertificated security;

(c) Directly or indirectly creates a fractional interest in its rights or property, if the fractional interest is represented by a security certificate; or

(d) Becomes responsible for, or in place of, another person described as an issuer in this section.

(2) With respect to an obligation on or defense to a security, a guarantor is an issuer to the extent of its guaranty, whether or not its obligation is noted on a security certificate.

(3) With respect to a registration of a transfer, issuer means a person on whose behalf transfer books are maintained.

§8-1202. Issuer's responsibility and defenses; notice of defect or defense

(1) Even against a purchaser for value and without notice, the terms of a certificated security include terms stated on the certificate and terms made part of the security by reference on the certificate to another instrument, indenture or document or to a constitution, statute, ordinance, rule, regulation, order or the like, to the extent the terms referred to do not conflict with terms stated on the certificate. A reference under this subsection does not of itself charge a purchaser for value with notice of a defect going to the validity of the security, even if the certificate expressly states that a person accepting it admits notice. The terms of an uncertificated security include those stated in any instrument, indenture or document or in a constitution, statute, ordinance, rule, regulation, order or the like, pursuant to which the security is issued.

(2) The following rules apply if an issuer asserts that a security is not valid.

(a) A security other than one issued by a government or governmental subdivision, agency or instrumentality, even though issued with a defect going to its validity, is valid in the hands of a purchaser for value and without notice of the particular defect unless the defect involves a violation of a constitutional provision. In that case, the security is valid in the hands of a purchaser for value and without notice of the defect, other than one who takes by original issue.

(b) Paragraph (a) applies to an issuer that is a government or governmental subdivision.

agency or instrumentality only if there has been substantial compliance with the legal requirements governing the issue or the issuer has received a substantial consideration for the issue as a whole or for the particular security and a stated purpose of the issue is one for which the issuer has power to borrow money or issue the security.

(3) Except as otherwise provided in Section 8-1205, lack of genuineness of a certificated security is a complete defense, even against a purchaser for value and without notice.

(4) All other defenses of the issuer of a security, including nondelivery and conditional delivery of a certificated security, are ineffective against a purchaser for value who has taken the certificated security without notice of the particular defense.

(5) This section does not affect the right of a party to cancel a contract for a security "when, as and if issued" or "when distributed" in the event of a material change in the character of the security that is the subject of the contract or in the plan or arrangement pursuant to which the security is to be issued or distributed.

(6) If a security is held by a securities intermediary against whom an entitlement holder has a security entitlement with respect to the security, the issuer may not assert any defense that the issuer could not assert if the entitlement holder held the security directly.

§8-1203. Staleness as notice of defect or defense

After an act or event, other than a call that has been revoked, creating a right to immediate performance of the principal obligation represented by a certificated security or setting a date on or after which the security is to be presented or surrendered for redemption or exchange, a purchaser is charged with notice of any defect in its issue or defense of the issuer, if the act or event:

(1) Requires the payment of money, the delivery of a certificated security, the registration of transfer of an uncertificated security or any of them on presentation or surrender of the security certificate, the money or security is available on the date set for payment or exchange and the purchaser takes the security more than one year after that date; or

(2) Is not covered by subsection (1) and the purchaser takes the security more than 2 years after the date set for surrender or presentation or the date on which performance became due.

§8-1204. Effect of issuer's restriction on transfer

A restriction on transfer of a security imposed by the issuer, even if otherwise lawful, is ineffective

against a person without knowledge of the restriction unless:

(1) The security is certificated and the restriction is noted conspicuously on the security certificate; or

(2) The security is uncertificated and the registered owner has been notified of the restriction.

§8-1205. Effect of unauthorized signature on security certificate

An unauthorized signature placed on a security certificate before or in the course of issue is ineffective, but the signature is effective in favor of a purchaser for value of the certificated security if the purchaser is without notice of the lack of authority and the signing has been done by:

(1) An authenticating trustee, registrar, transfer agent or other person entrusted by the issuer with the signing of the security certificate or of similar security certificates, or the immediate preparation for signing of any of them; or

(2) An employee of the issuer, or of any of the persons listed in subsection (1), entrusted with responsible handling of the security certificate.

§8-1206. Completion or alteration of security certificate

(1) If a security certificate contains the signatures necessary to its issue or transfer but is incomplete in any other respect:

(a) Any person may complete it by filling in the blanks as authorized; and

(b) Even if the blanks are incorrectly filled in, the security certificate as completed is enforceable by a purchaser who took it for value and without notice of the incorrectness.

(2) A complete security certificate that has been improperly altered, even if fraudulently, remains enforceable, but only according to its original terms.

§8-1207. Rights and duties of issuer with respect to registered owners

(1) Before due presentment for registration of transfer of a certificated security in registered form or of an instruction requesting registration of transfer of an uncertificated security, the issuer or indenture trustee may treat the registered owner as the person exclusively entitled to vote, receive notifications and otherwise exercise all the rights and powers of an owner.

(2) This Article does not affect the liability of the registered owner of a security for a call, assessment or the like.

§8-1208. Effect of signature of authenticating trustee, registrar or transfer agent

(1) A person signing a security certificate as authenticating trustee, registrar, transfer agent or the like, warrants to a purchaser for value of the certificated security, if the purchaser is without notice of a particular defect, that:

(a) The certificate is genuine;

(b) The person's own participation in the issue of the security is within the person's capacity and within the scope of the authority received by the person from the issuer; and

(c) The person has reasonable grounds to believe that the certificated security is in the form and within the amount the issuer is authorized to issue.

(2) Unless otherwise agreed, a person signing under subsection (1) does not assume responsibility for the validity of the security in other respects.

§8-1209. Issuer's lien

A lien in favor of an issuer upon a certificated security is valid against a purchaser only if the right of the issuer to the lien is noted conspicuously on the security certificate.

§8-1210. Overissue

(1) In this section, "overissue" means the issue of securities in excess of the amount the issuer has corporate power to issue, but an overissue does not occur if appropriate action has cured the overissue.

(2) Except as otherwise provided in subsections (3) and (4), the provisions of this Article which validate a security or compel its issue or reissue do not apply to the extent that validation, issue or reissue would result in overissue.

(3) If an identical security not constituting an overissue is reasonably available for purchase, a person entitled to issue or validation may compel the issuer to purchase the security and deliver it if certificated or register its transfer if uncertificated, against surrender of any security certificate the person holds.

(4) If a security is not reasonably available for purchase, a person entitled to issue or validation may recover from the issuer the price the person or the last purchaser for value paid for it with interest from the date of the person's demand.

PART 3

**TRANSFER OF CERTIFICATED
AND UNCERTIFICATED SECURITIES**

§8-1301. Delivery

(1) Delivery of a certificated security to a purchaser occurs when:

(a) The purchaser acquires possession of the security certificate;

(b) Another person, other than a securities intermediary, either acquires possession of the security certificate on behalf of the purchaser or, having previously acquired possession of the certificate, acknowledges that it holds for the purchaser; or

(c) A securities intermediary acting on behalf of the purchaser acquires possession of the security certificate, only if the certificate is in registered form and has been specially indorsed to the purchaser by an effective indorsement.

(2) Delivery of an uncertificated security to a purchaser occurs when:

(a) The issuer registers the purchaser as the registered owner, upon original issue or registration of transfer; or

(b) Another person, other than a securities intermediary, either becomes the registered owner of the uncertificated security on behalf of the purchaser or, having previously become the registered owner, acknowledges that it holds for the purchaser.

§8-1302. Rights of purchaser

(1) Except as otherwise provided in subsections (2) and (3), upon delivery of a certificated or uncertificated security to a purchaser, the purchaser acquires all rights in the security that the transferor had or had power to transfer.

(2) A purchaser of a limited interest acquires rights only to the extent of the interest purchased.

(3) A purchaser of a certificated security who as a previous holder had notice of an adverse claim does not improve its position by taking from a protected purchaser.

§8-1303. Protected purchaser

(1) "Protected purchaser" means a purchaser of a certificated or uncertificated security or of an interest in a certificated or uncertificated security who:

- (a) Gives value;
- (b) Does not have notice of any adverse claim to the security; and
- (c) Obtains control of the certificated or uncertificated security.

(2) In addition to acquiring the rights of a purchaser, a protected purchaser also acquires its interest in the security free of any adverse claim.

§8-1304. Indorsement

(1) An indorsement may be in blank or special. An indorsement in blank includes an indorsement to bearer. A special indorsement specifies to whom a security is to be transferred or who has power to transfer it. A holder may convert a blank indorsement to a special indorsement.

(2) An indorsement purporting to be only of part of a security certificate representing units intended by the issuer to be separately transferable is effective to the extent of the indorsement.

(3) An indorsement, whether special or in blank, does not constitute a transfer until delivery of the certificate on which it appears or, if the indorsement is on a separate document, until delivery of both the document and the certificate.

(4) If a security certificate in registered form has been delivered to a purchaser without a necessary indorsement, the purchaser may become a protected purchaser only when the indorsement is supplied. However, against a transferor, a transfer is complete upon delivery and the purchaser has a specifically enforceable right to have any necessary indorsement supplied.

(5) An indorsement of a security certificate in bearer form may give notice of an adverse claim to the certificate, but it does not otherwise affect a right to registration that the holder possesses.

(6) Unless otherwise agreed, a person making an indorsement assumes only the obligations provided in section 8-1108 and not an obligation that the security will be honored by the issuer.

§8-1305. Instruction

(1) If an instruction has been originated by an appropriate person but is incomplete in any other respect, any person may complete it as authorized and the issuer may rely on it as completed, even though it has been completed incorrectly.

(2) Unless otherwise agreed, a person initiating an instruction assumes only the obligations imposed

by section 8-1108 and not an obligation that the security will be honored by the issuer.

§8-1306. Effect of guaranteeing signature, indorsement or instruction

(1) A person who guarantees a signature of an indorser of a security certificate warrants that at the time of signing:

- (a) The signature was genuine;
- (b) The signer was an appropriate person to indorse or, if the signature is by an agent, the agent had actual authority to act on behalf of the appropriate person; and
- (c) The signer had legal capacity to sign.

(2) A person who guarantees a signature of the originator of an instruction warrants that at the time of signing:

- (a) The signature was genuine;
- (b) The signer was an appropriate person to originate the instruction or, if the signature is by an agent, the agent had actual authority to act on behalf of the appropriate person, if the person specified in the instruction as the registered owner was, in fact, the registered owner, as to which fact the signature guarantor does not make a warranty; and
- (c) The signer had legal capacity to sign.

(3) A person who specially guarantees the signature of an originator of an instruction makes the warranties of a signature guarantor under subsection (2) and also warrants that at the time the instruction is presented to the issuer:

- (a) The person specified in the instruction as the registered owner of the uncertificated security will be the registered owner; and
- (b) The transfer of the uncertificated security requested in the instruction will be registered by the issuer free from all liens, security interests, restrictions and claims other than those specified in the instruction.

(4) A guarantor under subsections (1) and (2) or a special guarantor under subsection (3) does not otherwise warrant the rightfulness of the transfer.

(5) A person who guarantees an indorsement of a security certificate makes the warranties of a signature guarantor under subsection (1) and also warrants the rightfulness of the transfer in all respects.

(6) A person who guarantees an instruction requesting the transfer of an uncertificated security makes the warranties of a special signature guarantor under subsection (3) and also warrants the rightfulness of the transfer in all respects.

(7) An issuer may not require a special guaranty of signature, a guaranty of indorsement or a guaranty of instruction as a condition to registration of transfer.

(8) The warranties under this section are made to a person taking or dealing with the security in reliance on the guaranty and the guarantor is liable to the person for loss resulting from their breach. An indorser or originator of an instruction whose signature, indorsement or instruction has been guaranteed is liable to a guarantor for any loss suffered by the guarantor as a result of breach of the warranties of the guarantor.

§8-1307. Purchaser's right to requisites for registration of transfer

Unless otherwise agreed, the transferor of a security on due demand shall supply the purchaser with proof of authority to transfer or with any other requisite necessary to obtain registration of the transfer of the security, but, if the transfer is not for value, a transferor need not comply unless the purchaser pays the necessary expenses. If the transferor fails within a reasonable time to comply with the demand, the purchaser may reject or rescind the transfer.

PART 4

REGISTRATION

§8-1401. Duty of issuer to register transfer

(1) If a certificated security in registered form is presented to an issuer with a request to register transfer or an instruction is presented to an issuer with a request to register transfer of an uncertificated security, the issuer shall register the transfer as requested if:

(a) Under the terms of the security, the person seeking registration of transfer is eligible to have the security registered in its name;

(b) The indorsement or instruction is made by the appropriate person or by an agent who has actual authority to act on behalf of the appropriate person;

(c) Reasonable assurance is given that the indorsement or instruction is genuine and authorized in accordance with section 8-1402;

(d) Any applicable law relating to the collection of taxes has been complied with;

(e) The transfer does not violate any restriction on transfer imposed by the issuer in accordance with section 8-1204;

(f) A demand that the issuer not register transfer has not become effective under section 8-1403, or the issuer has complied with section 8-1403, subsection (2) but no legal process or indemnity bond is obtained as provided in section 8-1403, subsection (4); and

(g) The transfer is in fact rightful or is to a protected purchaser.

(2) If an issuer is under a duty to register a transfer of a security, the issuer is liable to a person presenting a certificated security or an instruction for registration or to the person's principal for loss resulting from unreasonable delay in registration or failure or refusal to register the transfer.

§8-1402. Assurance that indorsement or instruction is effective

(1) An issuer may require the following assurance that each necessary indorsement or each instruction is genuine and authorized:

(a) In all cases, a guaranty of the signature of the person making an indorsement or originating an instruction including, in the case of an instruction, reasonable assurance of identity;

(b) If the indorsement is made or the instruction is originated by an agent, appropriate assurance of actual authority to sign;

(c) If the indorsement is made or the instruction is originated by a fiduciary pursuant to section 8-1107, subsection (1), paragraph (d) or (e), appropriate evidence of appointment or incumbency;

(d) If there is more than one fiduciary, reasonable assurance that all who are required to sign have done so; and

(e) If the indorsement is made or the instruction is originated by a person not covered by another provision of this subsection, assurance appropriate to the case corresponding as nearly as may be to the provisions of this subsection.

(2) An issuer may elect to require reasonable assurance beyond that specified in this section.

(3) In this section:

(a) "Guaranty of the signature" means a guaranty signed by or on behalf of a person reasonably believed by the issuer to be responsible. An issuer may adopt standards with respect to responsibility if they are not manifestly unreasonable; and

(b) "Appropriate evidence of appointment or incumbency" means:

(i) In the case of a fiduciary appointed or qualified by a court, a certificate issued by or under the direction or supervision of the court or an officer of the court and dated within 60 days before the date of presentation for transfer; or

(ii) In any other case, a copy of a document showing the appointment or a certificate issued by or on behalf of a person reasonably believed by an issuer to be responsible or, in the absence of that document or certificate, other evidence the issuer reasonably considers appropriate.

§8-1403. Demand that issuer not register transfer

(1) A person who is an appropriate person to make an indorsement or originate an instruction may demand that the issuer not register transfer of a security by communicating to the issuer a notification that identifies the registered owner and the issue of which the security is a part and provides an address for communications directed to the person making the demand. The demand is effective only if it is received by the issuer at a time and in a manner affording the issuer reasonable opportunity to act on it.

(2) If a certificated security in registered form is presented to an issuer with a request to register transfer or an instruction is presented to an issuer with a request to register transfer of an uncertificated security after a demand that the issuer not register transfer has become effective, the issuer shall promptly communicate to the person who initiated the demand at the address provided in the demand and the person who presented the security for registration of transfer or initiated the instruction requesting registration of transfer a notification stating that:

(a) The certificated security has been presented for registration of transfer or the instruction for registration of transfer of the uncertificated security has been received;

(b) A demand that the issuer not register transfer had previously been received; and

(c) The issuer will withhold registration of transfer for a period of time stated in the notification in order to provide the person who initiated the

demand an opportunity to obtain legal process or an indemnity bond.

(3) The period described in subsection (2), paragraph (c) may not exceed 30 days after the date of communication of the notification. A shorter period may be specified by the issuer if it is not manifestly unreasonable.

(4) An issuer is not liable to a person who initiated a demand that the issuer not register transfer for any loss the person suffers as a result of registration of a transfer pursuant to an effective indorsement or instruction if the person who initiated the demand does not, within the time stated in the issuer's communication, either:

(a) Obtain an appropriate restraining order, injunction or other process from a court of competent jurisdiction enjoining the issuer from registering the transfer; or

(b) File with the issuer an indemnity bond sufficient in the issuer's judgment to protect the issuer and any transfer agent, registrar or other agent of the issuer involved from any loss it or they may suffer by refusing to register the transfer.

(5) This section does not relieve an issuer from liability for registering transfer pursuant to an indorsement or instruction that was not effective.

§8-1404. Wrongful registration

(1) Except as otherwise provided in section 8-1406, an issuer is liable for wrongful registration of transfer if the issuer has registered a transfer of a security to a person not entitled to it and the transfer was registered:

(a) Pursuant to an ineffective indorsement or instruction;

(b) After a demand that the issuer not register transfer became effective under section 8-1403, subsection (1) and the issuer did not comply with section 8-1403, subsection (2);

(c) After the issuer had been served with an injunction, restraining order or other legal process enjoining it from registering the transfer, issued by a court of competent jurisdiction, and the issuer had a reasonable opportunity to act on the injunction, restraining order or other legal process; or

(d) By an issuer acting in collusion with the wrongdoer.

(2) An issuer that is liable for wrongful registration of transfer under subsection (1) on demand shall provide the person entitled to the security with a like

certificated or uncertificated security and any payments or distributions that the person did not receive as a result of the wrongful registration. If an overissue would result, the issuer's liability to provide the person with a like security is governed by section 8-1210.

(3) Except as otherwise provided in subsection (1) or in a law relating to the collection of taxes, an issuer is not liable to an owner or other person suffering loss as a result of the registration of a transfer of a security if registration was made pursuant to an effective indorsement or instruction.

§8-1405. Replacement of lost, destroyed or wrongfully taken security certificate

(1) If an owner of a certificated security, whether in registered or bearer form, claims that the certificate has been lost, destroyed or wrongfully taken, the issuer shall issue a new certificate if the owner:

(a) So requests before the issuer has notice that the certificate has been acquired by a protected purchaser;

(b) Files with the issuer a sufficient indemnity bond; and

(c) Satisfies other reasonable requirements imposed by the issuer.

(2) If, after the issue of a new security certificate, a protected purchaser of the original certificate presents it for registration of transfer, the issuer shall register the transfer unless an overissue would result. In that case, the issuer's liability is governed by Section 8-1210. In addition to any rights on the indemnity bond, an issuer may recover the new certificate from a person to whom it was issued or any person taking under that person, except a protected purchaser.

§8-1406. Obligation to notify issuer of lost, destroyed or wrongfully taken security certificate

If a security certificate has been lost, apparently destroyed or wrongfully taken, and the owner fails to notify the issuer of that fact within a reasonable time after the owner has notice of it and the issuer registers a transfer of the security before receiving notification, the owner may not assert against the issuer a claim for registering the transfer under Section 8-1404 or a claim to a new security certificate under Section 8-1405.

§8-1407. Authenticating trustee, transfer agent and registrar

A person acting as authenticating trustee, transfer agent, registrar or other agent for an issuer in the

registration of a transfer of its securities, in the issue of new security certificates or uncertificated securities or in the cancellation of surrendered security certificates has the same obligation to the holder or owner of a certificated or uncertificated security with regard to the particular functions performed as the issuer has in regard to those functions.

PART 5

SECURITY ENTITLEMENTS

§8-1501. Securities account; acquisition of security entitlement from securities intermediary

(1) "Securities account" means an account to which a financial asset is or may be credited in accordance with an agreement under which the person maintaining the account undertakes to treat the person for whom the account is maintained as entitled to exercise the rights that comprise the financial asset.

(2) Except as otherwise provided in subsections (4) and (5), a person acquires a security entitlement if a securities intermediary:

(a) Indicates by book entry that a financial asset has been credited to the person's securities account;

(b) Receives a financial asset from the person or acquires a financial asset for the person and, in either case, accepts it for credit to the person's securities account; or

(c) Becomes obligated under other law, regulation or rule to credit a financial asset to the person's securities account.

(3) If a condition of subsection (2) has been met, a person has a security entitlement even though the securities intermediary does not itself hold the financial asset.

(4) If a securities intermediary holds a financial asset for another person and the financial asset is registered in the name of, payable to the order of or specially indorsed to the other person, and has not been indorsed to the securities intermediary or in blank, the other person is treated as holding the financial asset directly rather than as having a security entitlement with respect to the financial asset.

(5) Issuance of a security is not establishment of a security entitlement.

§8-1502. Assertion of adverse claim against entitlement holder

An action based on an adverse claim to a financial asset, whether framed in conversion, replevin,

constructive trust, equitable lien or other theory, may not be asserted against a person who acquires a security entitlement under section 8-1501 for value and without notice of the adverse claim.

§8-1503. Property interest of entitlement holder in financial asset held by securities intermediary

(1) To the extent necessary for a securities intermediary to satisfy all security entitlements with respect to a particular financial asset, all interests in that financial asset held by the securities intermediary are held by the securities intermediary for the entitlement holders, are not property of the securities intermediary and are not subject to claims of creditors of the securities intermediary, except as otherwise provided in section 8-1511.

(2) An entitlement holder's property interest with respect to a particular financial asset under subsection (1) is a pro rata property interest in all interests in that financial asset held by the securities intermediary, without regard to the time the entitlement holder acquired the security entitlement or the time the securities intermediary acquired the interest in that financial asset.

(3) An entitlement holder's property interest with respect to a particular financial asset under subsection (1) may be enforced against the securities intermediary only by exercise of the entitlement holder's rights under sections 8-1505 to 8-1508.

(4) An entitlement holder's property interest with respect to a particular financial asset under subsection (1) may be enforced against a purchaser of the financial asset or interest in the financial asset only if:

(a) Insolvency proceedings have been initiated by or against the securities intermediary;

(b) The securities intermediary does not have sufficient interests in the financial asset to satisfy the security entitlements of all of its entitlement holders to that financial asset;

(c) The securities intermediary violated its obligations under section 8-1504 by transferring the financial asset or interest in the financial asset to the purchaser; and

(d) The purchaser is not protected under subsection (5). The trustee or other liquidator, acting on behalf of all entitlement holders having security entitlements with respect to a particular financial asset, may recover the financial asset, or interest in the financial asset, from the purchaser. If the trustee or other liquidator elects not to pursue that right, an entitlement holder whose secu-

ity entitlement remains unsatisfied has the right to recover its interest in the financial asset from the purchaser.

(5) An action based on the entitlement holder's property interest with respect to a particular financial asset under subsection (1), whether framed in conversion, replevin, constructive trust, equitable lien or other theory, may not be asserted against any purchaser of a financial asset or interest in a financial asset who gives value, obtains control and does not act in collusion with the securities intermediary in violating the securities intermediary's obligations under section 8-1504.

§8-1504. Duty of securities intermediary to maintain financial asset

(1) A securities intermediary shall promptly obtain and thereafter maintain a financial asset in a quantity corresponding to the aggregate of all security entitlements it has established in favor of its entitlement holders with respect to that financial asset. The securities intermediary may maintain those financial assets directly or through one or more other securities intermediaries.

(2) Except to the extent otherwise agreed by its entitlement holder, a securities intermediary may not grant any security interests in a financial asset it is obligated to maintain pursuant to subsection (1).

(3) A securities intermediary satisfies the duty in subsection (1) if:

(a) The securities intermediary acts with respect to the duty as agreed upon by the entitlement holder and the securities intermediary; or

(b) In the absence of agreement, the securities intermediary exercises due care in accordance with reasonable commercial standards to obtain and maintain the financial asset.

(4) This section does not apply to a clearing corporation that is itself the obligor of an option or similar obligation to which its entitlement holders have security entitlements.

§8-1505. Duty of securities intermediary with respect to payments and distributions

(1) A securities intermediary shall take action to obtain a payment or distribution made by the issuer of a financial asset. A securities intermediary satisfies the duty if:

(a) The securities intermediary acts with respect to the duty as agreed upon by the entitlement holder and the securities intermediary; or

(b) In the absence of agreement, the securities intermediary exercises due care in accordance with reasonable commercial standards to attempt to obtain the payment or distribution.

(2) A securities intermediary is obligated to its entitlement holder for a payment or distribution made by the issuer of a financial asset if the payment or distribution is received by the securities intermediary.

§8-1506. Duty of securities intermediary to exercise rights as directed by entitlement holder

A securities intermediary shall exercise rights with respect to a financial asset if directed to do so by an entitlement holder. A securities intermediary satisfies the duty if:

(1) The securities intermediary acts with respect to the duty as agreed upon by the entitlement holder and the securities intermediary; or

(2) In the absence of agreement, the securities intermediary either places the entitlement holder in a position to exercise the rights directly or exercises due care in accordance with reasonable commercial standards to follow the direction of the entitlement holder.

§8-1507. Duty of securities intermediary to comply with entitlement order

(1) A securities intermediary shall comply with an entitlement order if the entitlement order is originated by the appropriate person, the securities intermediary has had reasonable opportunity to assure itself that the entitlement order is genuine and authorized and the securities intermediary has had reasonable opportunity to comply with the entitlement order. A securities intermediary satisfies the duty if:

(a) The securities intermediary acts with respect to the duty as agreed upon by the entitlement holder and the securities intermediary; or

(b) In the absence of agreement, the securities intermediary exercises due care in accordance with reasonable commercial standards to comply with the entitlement order.

(2) If a securities intermediary transfers a financial asset pursuant to an ineffective entitlement order, the securities intermediary shall reestablish a security entitlement in favor of the person entitled to it and pay or credit any payments or distributions that the person did not receive as a result of the wrongful transfer. If the securities intermediary does not reestablish a security entitlement, the securities intermediary is liable to the entitlement holder for damages.

§8-1508. Duty of securities intermediary to change entitlement holder's position to other form of security holding

A securities intermediary shall act at the direction of an entitlement holder to change a security entitlement into another available form of holding for which the entitlement holder is eligible or to cause the financial asset to be transferred to a securities account of the entitlement holder with another securities intermediary. A securities intermediary satisfies the duty if:

(1) The securities intermediary acts as agreed upon by the entitlement holder and the securities intermediary; or

(2) In the absence of agreement, the securities intermediary exercises due care in accordance with reasonable commercial standards to follow the direction of the entitlement holder.

§8-1509. Specification of duties of securities intermediary by other statute or regulation; manner of performance of duties of securities intermediary and exercise of rights of entitlement holder

(1) If the substance of a duty imposed upon a securities intermediary by sections 8-1504 to 8-1508 is the subject of other statute, regulation or rule, compliance with that statute, regulation or rule satisfies the duty.

(2) To the extent that specific standards for the performance of the duties of a securities intermediary or the exercise of the rights of an entitlement holder are not specified by other statute, regulation or rule or by agreement between the securities intermediary and entitlement holder, the securities intermediary shall perform its duties and the entitlement holder shall exercise its rights in a commercially reasonable manner.

(3) The obligation of a securities intermediary to perform the duties imposed by sections 8-1504 to 8-1508 is subject to:

(a) Rights of the securities intermediary arising out of a security interest under a security agreement with the entitlement holder or otherwise; and

(b) Rights of the securities intermediary under other law, regulation, rule or agreement to withhold performance of its duties as a result of unfulfilled obligations of the entitlement holder to the securities intermediary.

(4) Sections 8-1504 to 8-1508 do not require a securities intermediary to take any action that is prohibited by other statute, regulation or rule.

§8-1510. Rights of purchaser of security entitlement from entitlement holder

(1) An action based on an adverse claim to a financial asset or security entitlement, whether framed in conversion, replevin, constructive trust, equitable lien or other theory, may not be asserted against a person who purchases a security entitlement or an interest in a security entitlement from an entitlement holder if the purchaser gives value, does not have notice of the adverse claim and obtains control.

(2) If an adverse claim could not have been asserted against an entitlement holder under section 8-1502, the adverse claim can not be asserted against a person who purchases a security entitlement or an interest in a security entitlement from the entitlement holder.

(3) In a case not covered by the priority rules in Article 9, a purchaser for value of a security entitlement or an interest in a security entitlement who obtains control has priority over a purchaser of a security entitlement or an interest in a security entitlement who does not obtain control. Purchasers who have control rank equally, except that a securities intermediary as purchaser has priority over a conflicting purchaser who has control unless otherwise agreed by the securities intermediary.

§8-1511. Priority among security interests and entitlement holders

(1) Except as otherwise provided in subsections (2) and (3), if a securities intermediary does not have sufficient interests in a particular financial asset to satisfy both its obligations to entitlement holders who have security entitlements to that financial asset and its obligation to a creditor of the securities intermediary who has a security interest in that financial asset, the claims of entitlement holders, other than the creditor, have priority over the claim of the creditor.

(2) A claim of a creditor of a securities intermediary who has a security interest in a financial asset held by a securities intermediary has priority over claims of the securities intermediary's entitlement holders who have security entitlements with respect to that financial asset if the creditor has control over the financial asset.

(3) If a clearing corporation does not have sufficient financial assets to satisfy both its obligations to entitlement holders who have security entitlements with respect to a financial asset and its obligation to a creditor of the clearing corporation who has a security

interest in that financial asset, the claim of the creditor has priority over the claims of entitlement holders.

Sec. B-3. Savings. If a security interest in a security is perfected at the date this Part takes effect, and the action by which the security interest was perfected would suffice to perfect a security interest under this Part, no further action is required to continue perfection. If a security interest in a security is perfected at the date this Part takes effect but the action by which the security interest was perfected would not suffice to perfect a security interest under this Part, the security interest remains perfected for a period of 4 months after the effective date and continues perfected thereafter if appropriate action to perfect under this Part is taken within that period. If a security interest is perfected at the date this Part takes effect and the security interest can be perfected by filing under this Part, a financing statement signed by the secured party instead of the debtor may be filed within that period to continue perfection or thereafter to perfect.

PART C

Sec. C-1. 9-B MRSA §443, sub-§8, as enacted by PL 1987, c. 405, §1, is amended to read:

8. Clearing corporation. Notwithstanding any other provision of law, ~~any fiduciary, as defined in Title 13, section 642, holding securities in its fiduciary capacity,~~ any financial institution or private banker holding securities as a custodian or managing agent, and any financial institution or private banker holding securities as custodian for a fiduciary, are authorized to deposit or arrange for the deposit of such securities in a clearing corporation as defined in Title 11, article ~~§ 8-A~~, upon the following terms and conditions.

A. When those securities are so deposited, certificates representing securities of the same class of the same issuer may be merged and held in bulk in the name of the nominee of the clearing corporation with any other such securities deposited in the clearing corporation by any person, regardless of ownership of the securities, and certificates of small denomination may be merged into one or more certificates of larger denomination. The records of the fiduciary and the records of the financial institution or private banker acting as custodian, as managing agent or as custodian for a fiduciary ~~shall~~ **must** at all times show the name of the party for whose account the securities are so deposited.

B. Title to the securities may be transferred by bookkeeping entry on the books of the clearing corporation without physical delivery of certificates representing those securities.

C. A financial institution or private banker so depositing securities pursuant to this section ~~shall be~~ is subject to such rules and regulations as, in the case of state-chartered institutions, the superintendent and, in the case of federally chartered institutions, the Federal Home Loan Bank Board or the United States Comptroller of the Currency may from time to time issue.

D. A financial institution acting as custodian for a fiduciary, on demand by the fiduciary, shall certify in writing to the fiduciary the securities so deposited by the financial institution or private banker in the clearing corporation for the account of the fiduciary.

E. A fiduciary, on demand by any party to a judicial proceeding for the settlement of the fiduciary's account or on demand by the attorney for the party, shall certify in writing to the party the securities deposited by the fiduciary in the clearing corporation for its account as the fiduciary.

This subsection ~~shall apply~~ applies to any fiduciary holding securities in its fiduciary capacity and to any financial institution or private banker holding securities as a custodian, managing agent or custodian for a fiduciary, acting on October 3, 1973, or who thereafter may act regardless of the date of the agreement, instrument or court order by which it is appointed and regardless of whether or not the fiduciary, custodian, managing agent or custodian for a fiduciary owns capital stock of the clearing corporation.

Sec. C-2. 11 MRSA §1-105, sub-§(2), as repealed and replaced by PL 1993, c. 349, §26, is amended to read:

(2) When one of the following provisions of this Title specifies the applicable law, that provision governs a contrary agreement only to the extent permitted by the law (including the conflict of laws rules) so specified:

Rights of creditors against sold goods. Section 2-402.

Applicability of the Article on Leases. Sections 2-1105 and 2-1106.

Applicability of the Article on Bank Deposits and Collections. Section 4-102.

Governing law in the Article on Funds Transfers. Section 4-1507.

Letters of Credit. Section 5-1116.

Applicability of the Article on Investment Securities. Section ~~8-406~~ 8-1110.

Perfection provisions of the Article on Secured Transactions. Section 9-103.

Sec. C-3. 11 MRSA §1-206, sub-§(2) is amended to read:

(2) Subsection (1) does not apply to contracts for the sale of goods (section 2-201) nor of securities (section ~~8-319~~ 8-1113) nor to security agreements (section 9-203).

Sec. C-4. 11 MRSA §2-512, sub-§(1), ¶(b) is amended to read:

(b) Despite tender of the required documents the circumstances would justify injunction against honor under the provisions of section ~~5-444~~ 5-1109, subsection (2).

Sec. C-5. 11 MRSA §4-104, sub-§(1), ¶(f), as amended by PL 1993, c. 293, Pt. B, §9, is further amended to read:

(f) Documentary draft. "Documentary draft" means a draft to be presented for acceptance or payment if specified documents, certificated securities as defined in section ~~8-402~~ 8-1102, instructions for uncertificated securities as defined in section ~~8-308~~ 8-1102, or other certificates, statements or the like are to be received by the drawee or other payor before acceptance or payment of the draft.

Sec. C-6. 11 MRSA §9-103, sub-§(1), as reenacted by PL 1977, c. 696, §119, is amended to read:

(1) Documents, instruments, letters of credit and ordinary goods.

(a) This subsection applies to documents ~~and~~ instruments, rights to proceeds of written letters of credit and to goods other than those covered by a certificate of title described in subsection (2), mobile goods described in subsection (3) and minerals described in subsection (5).

(b) Except as otherwise provided in this subsection, perfection and the effect of perfection or nonperfection of a security interest in collateral are governed by the law of the jurisdiction where the collateral is when the last event occurs on which is based the assertion that the security interest is perfected or unperfected.

(c) If the parties to a transaction creating a purchase money security interest in goods in one jurisdiction understand at the time that the security interest attaches that the goods will be kept in another jurisdiction, then the law of the other jurisdiction governs the perfection and the effect of perfection or nonperfection of the security in-

terest from the time it attaches until 30 days after the debtor receives possession of the goods and thereafter if the goods are taken to the other jurisdiction before the end of the 30-day period.

(d) When collateral is brought into and kept in this State while subject to a security interest perfected under the law of the jurisdiction from which the collateral was removed, the security interest remains perfected, but if action is required by Part 3 of this Article to perfect the security interest;

(i) If the action is not taken before the expiration of the period of perfection in the other jurisdiction or the end of 4 months after the collateral is brought into this State, whichever period first expires, the security interest becomes unperfected at the end of that period and is thereafter deemed to have been unperfected as against a person who became a purchaser after removal;

(ii) If the action is taken before the expiration of the period specified in subparagraph (i), the security interest continues perfected thereafter;

(iii) For the purpose of priority over a buyer of consumer goods, section 9-307, subsection (3), the period of the effectiveness of a filing in the jurisdiction from which the collateral is removed is governed by the rules with respect to perfection in subparagraphs (i) and (ii).

Sec. C-7. 11 MRSA §9-103, sub-§(6), as enacted by PL 1987, c. 625, §5, is repealed.

Sec. C-8. 11 MRSA §9-103, sub-§(7) is enacted to read:

(7) Investment property.

(a) This subsection applies to investment property.

(b) Except as provided in paragraph (f), during the time that a security certificate is located in a jurisdiction, perfection of a security interest, the effect of perfection or nonperfection and the priority of a security interest in the certificated security represented are governed by the local law of that jurisdiction.

(c) Except as otherwise provided in paragraph (f), perfection of a security interest, the effect of perfection or nonperfection and the priority of a security interest in an uncertificated security are governed by the local law of the issuer's jurisdiction

as specified in section 8-1110, subsection (4).

(d) Except as otherwise provided in paragraph (f), perfection of a security interest, the effect of perfection or nonperfection and the priority of a security interest in a security entitlement or securities account are governed by the local law of the securities intermediary's jurisdiction as specified in section 8-1110, subsection (5).

(e) Except as otherwise provided in paragraph (f), perfection of a security interest, the effect of perfection or nonperfection and the priority of a security interest in a commodity contract or commodity account are governed by the local law of the commodity intermediary's jurisdiction. The following rules determine a "commodity intermediary's jurisdiction" for purposes of this paragraph.

(i) If an agreement between the commodity intermediary and commodity customer specifies that it is governed by the law of a particular jurisdiction, that jurisdiction is the commodity intermediary's jurisdiction.

(ii) If an agreement between the commodity intermediary and commodity customer does not specify the governing law as provided in subparagraph (i), but expressly specifies that the commodity account is maintained at an office in a particular jurisdiction, that jurisdiction is the commodity intermediary's jurisdiction.

(iii) If an agreement between the commodity intermediary and commodity customer does not specify a jurisdiction as provided in subparagraphs (i) and (ii), the commodity intermediary's jurisdiction is the jurisdiction in which is located the office identified in an account statement as the office serving the commodity customer's account.

(iv) If an agreement between the commodity intermediary and commodity customer does not specify a jurisdiction as provided in subparagraphs (i) and (ii) and the account statement does not identify an office serving the commodity customer's account as provided in subparagraph (iii), the commodity intermediary's jurisdiction is the jurisdiction in which is located the chief executive office of the commodity intermediary.

(f) Perfection of a security interest by filing, automatic perfection of a security interest in investment property granted by a broker or securi-

ties intermediary and automatic perfection of a security interest in a commodity contract or commodity account granted by a commodity intermediary are governed by the local law of the jurisdiction in which the debtor is located.

Sec. C-9. 11 MRSA §9-104, sub-§(12), as enacted by PL 1977, c. 526, §12, is amended to read:

(12) To a transfer of an interest in any deposit account of section 9-105, subsection (1), except as provided with respect to proceeds, section 9-306, and priorities in proceeds, section 9-312, or

Sec. C-10. 11 MRSA §9-104, sub-§(14) is enacted to read:

(14) To a transfer of an interest in a letter of credit other than the rights to proceeds of a written letter of credit.

Sec. C-11. 11 MRSA §9-105, sub-§(1), ¶(h), as enacted by PL 1977, c. 696, §124, is amended to read:

(h) **Goods.** "Goods" includes all things ~~which~~ that are movable at the time the security interests attaches or ~~which~~ are fixtures, section 9-313, but does not include money, documents, instruments, investment property accounts, chattel paper, general intangibles or minerals or the like, including oil and gas, before extraction. "Goods" also includes standing timber ~~which~~ that is to be cut and removed under a conveyance or contract for sale, the unborn young of animals and growing crops.

Sec. C-12. 11 MRSA §9-105, sub-§(1), ¶(i), as amended by PL 1987, c. 625, §7, is further amended to read:

(i) **Instrument.** "Instrument" means a negotiable instrument, defined in section 3-104, ~~or a certificated security, defined in section 8-102,~~ or any other writing ~~which~~ that evidences a right to the payment of money and is not itself a security agreement or lease and is of a type ~~which~~ that is in ordinary course of business transferred by delivery with any necessary indorsement or assignment. The term does not include investment property;

Sec. C-13. 11 MRSA §9-105, sub-§(2), as amended by PL 1977, c. 696, §125, is further amended to read:

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

"Account."	Section 9-106.
"Attach."	Section 9-203.
"Commodity contract."	Section 9-115.
"Commodity customer."	Section 9-115.

"Commodity intermediary."
"Construction mortgage."

"Consumer goods."

"Control."
"Equipment."

"Farm products."

"Fixture."
"Fixture filing."
"General intangibles."
"Inventory."

"Investment property."
"Lien creditor."

Proceeds."

"Purchase money security interest."
"United States."

Section 9-115.
Section 9-313,
subsection (1).
Section 9-109,
subsection (1).
Section 9-115.
Section 9-109,
subsection (2).
Section 9-109,
subsection (3).
Section 9-313.
Section 9-313.
Section 9-106.
Section 9-109,
subsection (4).
Section 9-115.
Section 9-301,
subsection (3).
Section 9-306,
subsection (1).
Section 9-107.

Section 9-103.

Sec. C-14. 11 MRSA §9-105, sub-§(3) is amended to read:

(3) The following definitions in other Articles apply to this Article:

"Broker."	Section 8-1102.
"Certificated security."	Section 8-1102.
"Check."	Section 3-104.
"Clearing corporation."	Section 8-1102.
"Contract for sale."	Section 2-106.
"Control."	Section 8-1106.
"Delivery."	Section 8-1301.
"Entitlement holder."	Section 8-1102.
"Financial asset."	Section 8-1102.
"Holder in due course."	Section 3-302.
"Letter of credit."	Section 5-1102.
"Note."	Section 3-104.
"Proceeds of a letter of credit"	Section 5-1114, subsection (1).
"Sale."	Section 2-106.
"Securities intermediary."	Section 8-1102.
"Security."	Section 8-1102.
"Security certificate."	Section 8-1102.
"Security entitlement."	Section 8-1102.
"Uncertificated security."	Section 8-1102.

Sec. C-15. 11 MRSA §9-106, as amended by PL 1977, c. 696, §126, is further amended to read:

§9-106. Definitions: "Account;" "general intangibles"

"Account" means any right to payment for goods sold or leased or for services rendered ~~which~~ that is not evidenced by an instrument or chattel paper, whether or not it has been earned by performance.

"General intangibles" means any personal property, including things in action, other than goods, accounts, chattel paper, documents, instruments, investment property, rights to proceeds of written letters of credit and money. All rights to payment earned or unearned under a charter or other contract involving the use or hire of a vessel and all rights incident to the charter or contract are accounts.

Sec. C-16. 11 MRSA §§9-115 and 9-116 are enacted to read:

§9-115. Investment property

(1) As used in this Article, unless the context otherwise indicates, the following terms have the following meanings.

(a) "Commodity account" means an account maintained by a commodity intermediary in which a commodity contract is carried for a commodity customer.

(b) "Commodity contract" means a commodity futures contract, an option on a commodity futures contract, a commodity option or other contract that, in each case, is:

(i) Traded on or subject to the rules of a board of trade that has been designated as a contract market for such a contract pursuant to the federal commodities laws; or

(ii) Traded on a foreign commodity board of trade, exchange or market, and is carried on the books of a commodity intermediary for a commodity customer.

(c) "Commodity customer" means a person for whom a commodity intermediary carries a commodity contract on its books.

(d) "Commodity intermediary" means:

(i) A person who is registered as a futures commission merchant under the federal commodities laws; or

(ii) A person who in the ordinary course of its business provides clearance or settlement services for a board of trade that has been designated as a contract market pursuant to the federal commodities laws.

(e) "Control" with respect to a certificated security, uncertificated security or security entitlement has the meaning specified in Section 8-1106. A secured party has control over a commodity contract if by agreement among the commodity customer, the commodity intermediary and the secured party, the commodity intermediary has agreed that it will apply any value

distributed on account of the commodity contract as directed by the secured party without further consent by the commodity customer. If a commodity customer grants a security interest in a commodity contract to its own commodity intermediary, the commodity intermediary as secured party has control. A secured party has control over a securities account or commodity account if the secured party has control over all security entitlements or commodity contracts carried in the securities account or commodity account.

(f) "Investment property" means:

(i) A security, whether certificated or uncertificated;

(ii) A security entitlement;

(iii) A securities account;

(iv) A commodity contract; or

(v) A commodity account.

(2) Attachment or perfection of a security interest in a securities account is also attachment or perfection of a security interest in all security entitlements carried in the securities account. Attachment or perfection of a security interest in a commodity account is also attachment or perfection of a security interest in all commodity contracts carried in the commodity account.

(3) A description of collateral in a security agreement or financing statement is sufficient to create or perfect a security interest in a certificated security, uncertificated security, security entitlement, securities account, commodity contract or commodity account whether it describes the collateral by those terms or as investment property, or by description of the underlying security, financial asset or commodity contract. A description of investment property collateral in a security agreement or financing statement is sufficient if it identifies the collateral by specific listing, by category, by quantity, by a computational or allocational formula or procedure or by any other method, if the identity of the collateral is objectively determinable.

(4) Perfection of a security interest in investment property is governed by the following rules.

(a) A security interest in investment property may be perfected by control.

(b) Except as otherwise provided in paragraphs (c) and (d), a security interest in investment property may be perfected by filing.

(c) If the debtor is a broker or securities intermediary, a security interest in investment property is perfected when it attaches. The filing of a financing statement with respect to a security interest in investment property granted by a broker or securities intermediary has no effect for purposes of perfection or priority with respect to that security interest.

(d) If a debtor is a commodity intermediary, a security interest in a commodity contract or a commodity account is perfected when it attaches. The filing of a financing statement with respect to a security interest in a commodity contract or a commodity account granted by a commodity intermediary has no effect for purposes of perfection or priority with respect to that security interest.

(5) Priority between conflicting security interests in the same investment property is governed by the following rules.

(a) A security interest of a secured party who has control over investment property has priority over a security interest of a secured party who does not have control over the investment property.

(b) Except as otherwise provided in paragraphs (c) and (d), conflicting security interests of secured parties each of whom has control rank equally.

(c) Except as otherwise agreed by the securities intermediary, a security interest in a security entitlement or a securities account granted to the debtor's own securities intermediary has priority over any security interest granted by the debtor to another secured party.

(d) Except as otherwise agreed by the commodity intermediary, a security interest in a commodity contract or a commodity account granted to the debtor's own commodity intermediary has priority over any security interest granted by the debtor to another secured party.

(e) Conflicting security interests granted by a broker, a securities intermediary or a commodity intermediary that are perfected without control rank equally.

(f) In all other cases, priority between conflicting security interests in investment property is governed by section 9-312, subsections (5), (6) and (7). Section 9-312, subsection (4) does not apply to investment property.

(6) If a security certificate in registered form is delivered to a secured party pursuant to agreement, a

written security agreement is not required for attachment or enforceability of the security interest, delivery suffices for perfection of the security interest and the security interest has priority over a conflicting security interest perfected by means other than control, even if a necessary indorsement is lacking.

§9-116. Security interest arising in purchase or delivery of financial asset

(1) If a person buys a financial asset through a securities intermediary in a transaction in which the buyer is obligated to pay the purchase price to the securities intermediary at the time of the purchase, and the securities intermediary credits the financial asset to the buyer's securities account before the buyer pays the securities intermediary, the securities intermediary has a security interest in the buyer's security entitlement securing the buyer's obligation to pay. A security agreement is not required for attachment or enforceability of the security interest and the security interest is automatically perfected.

(2) If a certificated security, or other financial asset represented by a writing that in the ordinary course of business is transferred by delivery with any necessary indorsement or assignment is delivered pursuant to an agreement between persons in the business of dealing with such securities or financial assets and the agreement calls for delivery versus payment, the person delivering the certificate or other financial asset has a security interest in the certificated security or other financial asset securing the seller's right to receive payment. A security agreement is not required for attachment or enforceability of the security interest, and the security interest is automatically perfected.

Sec. C-17. 11 MRSA §9-203, sub-§(1), as amended by PL 1987, c. 625, §8, is further amended to read:

(1) Subject to the provisions of section 4-208 on the security interest of a collecting bank, ~~section 8-321 on security interests in securities~~ and section 9-113 on a security interest arising under the Article on sales and sections 9-115 and 9-116 on security interests in investment property, a security interest is not enforceable against the debtor or third parties with respect to the collateral and does not attach unless:

(a) The collateral is in the possession of the secured party pursuant to agreement, ~~the collateral is investment property and the secured party has control pursuant to agreement~~ or the debtor has signed a security agreement ~~which that~~ contains a description of the collateral and in addition, when the security interest covers crops growing or to be grown or timber to be cut, a description of the land concerned; ~~and~~

(b) Value has been given; and

(c) The debtor has rights in the collateral.

Sec. C-18. 11 MRSA §9-301, sub-§(1), ¶(d), as amended by PL 1977, c. 526, §34, is further amended to read:

(d) In the case of accounts ~~and~~ general intangibles and investment property, a person who is not a secured party and who is a transferee to the extent that ~~he~~ the person gives value without knowledge of the security interest and before it is perfected.

Sec. C-19. 11 MRSA §9-302, sub-§(1), ¶(b) is amended to read:

(b) A security interest temporarily perfected in instruments, certificated securities or documents without delivery under section 9-304 or in proceeds for a 10-day period under section 9-306;

Sec. C-20. 11 MRSA §9-302, sub-§(1), ¶(d), as amended by PL 1993, c. 41, §1, is further amended to read:

(d) A purchase money security interest in consumer goods where the amount financed, as defined in Title 9-A, section 1-301, subsection 5, is less than \$2,000, but fixture filing is required for priority over conflicting interests in fixtures to the extent provided in section 9-313;

Sec. C-21. 11 MRSA §9-302, sub-§(1), ¶(f), as amended by PL 1987, c. 625, §9, is further amended to read:

(f) A security interest of a collecting bank, section 4-208, ~~or in securities (section 8-321)~~ or arising under the Article on sales, see section 9-113, or covered in subsection (3);

Sec. C-22. 11 MRSA §9-302, sub-§(1), ¶(g), as repealed and replaced by PL 1977, c. 696, §130, is amended to read:

(g) An assignment for the benefit of all the creditors of the transferor, and subsequent transfers by the assignee thereunder; ~~or~~

Sec. C-23. 11 MRSA §9-302, sub-§(1), ¶(h) is enacted to read:

(h) A security interest in investment property that is perfected without filing under section 9-115 or 9-116.

Sec. C-24. 11 MRSA §9-303, sub-§(1), is amended to read:

(1) A security interest is perfected when it has attached and when all of the applicable steps required for perfection have been taken. Such steps are specified in sections 9-115, 9-302, 9-304, 9-305 and 9-306. If such steps are taken before the security interest attaches, it is perfected at the time when it attaches.

Sec. C-25. 11 MRSA §9-304, as amended by PL 1987, c. 625, §§10 to 12, is further amended to read:

§9-304. Perfection of security interest in instruments, documents, proceeds of a written letter of credit and goods covered by documents; perfection by permissive filing; temporary perfection without filing or transfer of possession

(1) A security interest in chattel paper or negotiable documents may be perfected by filing. A security interest in the rights to proceeds of a written letter of credit can be perfected only by the secured party's taking possession of the letter of credit. A security interest in money or instruments (other than ~~certificated securities~~ or instruments which that constitute part of chattel paper) can be perfected only by the secured party's taking possession, except as provided in subsections (4) and (5) and section 9-306, subsections (2) and (3) on proceeds.

(2) During the period that goods are in the possession of the issuer of a negotiable document therefor, a security interest in goods is perfected by perfecting a security interest in the document, and any security interest in the goods otherwise perfected during such period is subject thereto.

(3) A security interest in goods in the possession of a bailee other than one who has issued a negotiable document therefor is perfected by issuance of a document in the name of the secured party or by the bailee's receipt of notification of the secured party's interest or by filing as to the goods.

(4) A security interest in instruments, ~~other than~~ certificated securities, or negotiable documents is perfected without filing or the taking of possession for a period of 21 days from the time it attaches to the extent that it arises for new value given under a written security agreement.

(5) A security interest remains perfected for a period of 21 days without filing where a secured party having a perfected security interest in an instrument, ~~other than~~ a certificated security, a negotiable document or goods in possession of a bailee other than one who has issued a negotiable document therefor;

(a) Makes available to the debtor the goods or documents representing the goods for the pur-

pose of ultimate sale or exchange or for the purpose of loading, unloading, storing, shipping, transshipping, manufacturing, processing or otherwise dealing with them in a manner preliminary to their sale or exchange but priority between conflicting security interests in the goods is subject to section 9-312, subsection (3); or

(b) Delivers the instrument to the debtor for the purpose of ultimate sale or exchange or of presentation, collection, renewal or registration of transfer.

(6) After the 21-day period in subsections (4) and (5), perfection depends upon compliance with applicable provisions of this Article.

Sec. C-26. 11 MRSA §9-305, as amended by PL 1987, c. 625, §13, is further amended to read:

§9-305. When possession by secured party perfects security interest without filing

A security interest in ~~letters of credit and advices of credit (section 5-116, subsection (2), paragraph (a)),~~ goods, instruments, ~~other than certificated securities,~~ money, negotiable documents or chattel paper may be perfected by the secured party's taking possession of the collateral. A security interest in the right to proceeds of a written letter of credit may be perfected by the secured party's taking possession of the letter of credit. If such collateral other than goods covered by a negotiable document is held by a bailee, the secured party is deemed to have possession from the time the bailee receives notification of the secured party's interest. A security interest is perfected by possession from the time possession is taken without relation back and continues only so long as possession is retained, unless otherwise specified in this Article. The security interest may be otherwise perfected as provided in this Article before or after the period of possession by the secured party.

Sec. C-27. 11 MRSA §9-306, sub-§(1) is amended to read:

(1) "Proceeds" includes whatever is received upon the sale, exchange, collection or other disposition of collateral or proceeds. Insurance payable by reason of loss or damage to the collateral is proceeds, except to the extent that it is payable to a person other than a party to the security agreement. Any payments or distributions made with respect to investment property collateral are proceeds. Money, checks, deposit accounts and the like are "cash proceeds." All other proceeds are "noncash proceeds."

Sec. C-28. 11 MRSA §9-306, sub-§(3), ¶(c), as repealed and replaced by PL 1977, c. 696, §134, is amended to read:

(c) The security interest in the proceeds is perfected before the expiration of the 10-day period; or

Sec. C-29. 11 MRSA §9-306, sub-§(3), ¶(d) is enacted to read:

(d) The original collateral was investment property and the proceeds are identifiable cash proceeds.

Sec. C-30. 11 MRSA §9-309, as amended by PL 1987, c. 625, §16, is further amended to read:

§9-309. Protection of purchasers of instruments, documents and securities

Nothing in this Article limits the rights of a holder in due course of a negotiable instrument (section 3-302) or a holder to whom a negotiable document of title has been duly negotiated (section 7-501) or a ~~bona fide protected~~ purchaser of a security (section ~~8-302~~ 8-1303) and such holders or purchasers take priority over an earlier security interest even though perfected. Filing under this Article does not constitute notice of the security interest to such holders or purchasers.

Sec. C-31. 11 MRSA §9-312, sub-§(1), as amended by PL 1977, c. 696, §135, is further amended to read:

(1) The rules of priority stated in other sections of this Part and in the following sections ~~shall~~ govern when applicable: Section ~~4-208~~ 4-210 with respect to the security interests of collecting banks in items being collected, accompanying documents and proceeds; section 9-103 on security interests related to other jurisdictions; ~~and~~ section 9-114 on consignments; and section 9-115 on security interests in investment property.

Sec. C-32. 11 MRSA §9-312, sub-§(7), as amended by PL 1987, c. 625, §17, is further amended to read:

(7) If future advances are made while a security interest is perfected by filing, by the taking of possession, or under section ~~8-321 on securities~~ 9-115 or 9-116 on investment property, the security interest has the same priority for the purposes of subsection (5) or section 9-115, subsection (5) with respect to the future advances as it does with respect to the first advance. If a commitment is made before or while the security interest is so perfected, the security interest has the same priority with respect to advances made pursuant thereto. In other cases, a perfected security interest has priority from the date the advance is made.

Sec. C-33. 13 MRSA c. 21, as amended, is repealed.

Sec. C-34. 13-A MRSA §616, sub-§3, as enacted by PL 1971, c. 439, §1, is amended to read:

3. Unless noted on the face or back of the share certificates representing such shares, a restriction on transfer imposed either by agreement under subsection 1 or by the articles or bylaws under subsection 2 ~~shall be~~ is ineffective, except against a person who had actual knowledge of it at the time ~~he~~ the person acquired the shares. This subsection ~~shall be~~ is construed in the light of Title 11, section ~~8-204~~ 8-1204 and the statutory definitions applicable thereto.

Sec. C-35. 30-A MRSA §5706, sub-§2, as amended by PL 1995, c. 664, §2, is further amended to read:

2. **Repurchase agreements.** In repurchase agreements ~~secured by~~ with respect to obligations of the United States Government, as defined in section 5712, subsection 1, as long as the market value of the underlying obligation is equal to or greater than the amount of the municipality's investment and ~~either the municipality's security entitlement with respect to the underlying obligation is created pursuant to the provisions of Title 11, article 8-A and other applicable law or the municipality's security interest is perfected pursuant to the provisions of Title 11, sections 8-313 and 8-321 article 9 and other applicable law,~~ except that, if the term of the repurchase agreement is not in excess of 96 hours, the municipality's security interest ~~in~~ with respect to the underlying ~~security~~ obligation need not be perfected as long as an executed Public Securities Association form of master repurchase agreement is on file with the counterparty prior to the date of the transaction;

PART D

Sec. D-1. Legislative intent. This Act is the Maine enactment of the Uniform Commercial Code, Articles 5 and 8 as revised by the National Conference of Commissioners on Uniform State Laws. The text of that uniform Act has been changed to conform to Maine statutory conventions and the Articles are enacted as Articles 5-A and 8-A. The changes are technical in nature and it is the intent of the Legislature that this Act be interpreted as substantively the same as the revised Articles 5 and 8 of the uniform Act.

See title page for effective date.

CHAPTER 430

H.P. 1115 - L.D. 1558

An Act to Regulate Viatical Companies

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 24-A MRSA c. 85 is enacted to read:

CHAPTER 85

VIATICAL SETTLEMENTS ACT

§6801. Short title

This chapter may be known and cited as the "Viatical Settlements Act."

§6802. Definitions

As used in this chapter, unless the context otherwise indicates, the following terms have the following meanings.

1. Financing entity. "Financing entity" means any participant or transferee of or successor to the interest of a participant other than the viator in any viatical settlement financing transaction.

2. Financing transaction. "Financing transaction" means any transaction in which a licensed viatical settlement provider obtains financing for the purchase, acquisition, transfer or other assignment of one or more viatical settlement contracts, viaticated policies or interests in viatical settlement contracts or viaticated policies, including, without limitation, any secured or unsecured financing, securitization transaction or securities offering, either registered or exempt from registration under federal and state securities law, or otherwise sells, assigns, transfers, pledges, hypothecates or otherwise disposes of a viatical settlement contract, viaticated policy or interest in a viatical settlement contract or viaticated policy.

3. Independent viatical producer. "Independent viatical producer" means any person who has independent producer authority and who offers or advertises the availability of viatical settlements, introduces viators to viatical settlement providers and offers or attempts to negotiate viatical settlements between a viator and one or more viatical settlement providers. "Independent viatical producer" does not include an attorney or accountant retained to represent the viator whose compensation is paid by or at the direction of the viator nor does the term include a viatical settlement provider operating in this State or a viatical producer, a credit union or an employer or association that makes its employees or members aware of viatical settlement contracts. Irrespective of the manner in which the independent viatical producer is compensated, an independent viatical producer is deemed to represent only the interests of the viator and owes a fiduciary duty to the viator.