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TO THE  
HOUSE COMMITTEE ON  
FINANCE

THE TWENTY-SEVENTH STATE LEGISLATURE  
REGULAR SESSION OF 2013

Wednesday, March 27, 2013  
4:45 p.m.

TESTIMONY ON S.B. NO. 511  
RELATING TO UNIFORM COMMERCIAL CODE ARTICLE 4A

THE HONORABLE SYLVIA LUKE, CHAIR,  
AND MEMBERS OF THE COMMITTEE:

My name is Iris Ikeda Catalani, Commissioner of Financial Institutions  
("Commissioner"), testifying in support of S.B. No. 511, Relating to Uniform Commercial  
Code Article 4A, on behalf of the Department of Commerce and Consumer Affairs  
("DCCA" or the "Department").

This bill seeks to clarify the relationship between UCC Article 4A and the federal  
Electronic Fund Transfer Act (the "EFTA") and confirms Article 4A's applicability to  
remittance transfers under the EFTA.

The enactment of Section 1073 under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") caused some difficulties about the way that Uniform Commercial Code ("UCC") Article 4A applied to wire transfers. Prior to Dodd-Frank, Article 4A stated that a payment was not a wire transfer subject to Article 4A if any part of that payment was subject to the Electronic Funds Transfer Act (EFTA). Also, before Dodd-Frank, EFTA stated that a consumer payment made by means of a wire transfer system was not an electronic funds transfer subject to the EFTA and Regulation E.

Section 1073 disrupted this delineation of what EFTA covered and what Article 4A covered. Section 1073 brought consumer-initiated international wire transfers under the coverage of the EFTA, as amended by Dodd-Frank. After Section 1073, an international wire initiated by a consumer in the United States became a "remittance transfer" subject to the amended EFTA, and the legal consequence was that the entire series of bank-to-bank transfers that occur to complete the consumer-initiated wire were also taken out from under the structure of Article 4A. This was an undesirable legal result because virtually all of the agreements among U.S. banks for handling international wire transfers assumed that the rights and obligations of the banks with respect to those transfers were defined by Article 4A.

Recognizing the uncertainty around which laws now govern the rights and responsibilities for the interbank piece of the remittance transfer, the industry and

regulators have worked to provide fixes in Regulation J (which governs FedWire transfers) and the Clearing House Interbank Payments System (or CHIPS) rules. The fixes allow UCC 4A to continue to apply regardless of whether a funds transfer is also a remittance transfer governed by Section 919 of EFTA. The Bank Secrecy Act rules have a similar definitional cross-reference issue as Regulation J, CHIPS rules, and UCC 4A. The issue does not currently have a fix in place but is under review by the Federal Reserve and the U.S. Department of the Treasury's Financial Crimes Enforcement Network (or FinCEN).

The EFTA and amended Regulation E cover "electronic fund transfers," an electronic payment initiated by or on behalf of a consumer to debit or credit a consumer's account. Generally, UCC Article 4A governs "funds transfers," such as a wholesale wire transfer originated on behalf of a business enterprise. Article 4A governs the rights and responsibilities among commercial parties to a wire transfer, including payment obligations among the parties and allocation of risk of loss.

The UCC Article 4A provides that the provisions do not apply to a funds transfer any part of which is governed by the EFTA. By virtue of UCC 4A, funds transfers governed by the EFTA and funds transfers governed by UCC 4A are clearly separated by this statutory divide.

Thus, Section 1073 changes current law. If UCC 4A remains unchanged, effective February 7, 2013, the effect of current UCC 4A is to make funds transfers that are remittance transfers (but not electronic fund transfers) fall outside the coverage of

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UCC 4A, leaving the rights and responsibilities among providers of international funds transfers, such as international wire transfers, unregulated by UCC 4A. The amendment to UCC 4A under S.B. No. 511 makes such remittance transfers subject to UCC 4A as long as the transfers do not fall within the definition of an electronic fund transfer and such coverage is not inconsistent with the EFTA.

In summary, S.B. No. 511 would recognize the division between the EFTA and UCC 4A. Therefore, the rights and responsibilities among providers of international funds transfers, including international wire transfers, would continue to be regulated by UCC 4A. Further, the consumer's rights and protections afforded under the EFTA and Regulation E to such remittance transfers would continue to be available to consumers, as the EFTA will be the governing law as between the consumer sender and the remittance transfer provider.

Thank you for the opportunity to provide this testimony in support of this measure. I would be pleased to respond to any questions you may have.