



FEDERAL RESERVE BANK *of* NEW YORK

Increasing Payment Efficiency: Funds Transfers and Article 4A

Joseph Torregrossa
Counsel & Assistant Vice President

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Disclaimer

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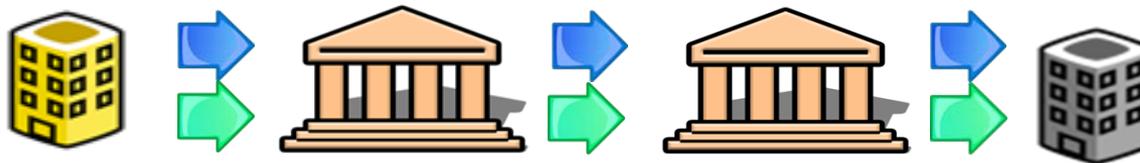


Funds transfer basics

Book transfer



Funds transfer through correspondent and respondent receiving banks



Key



Originator



Payment order/advice of credit



Beneficiary



Payment/settlement



Receiving bank

Funds transfer basics

Funds transfer through common correspondent (intermediary) bank



Funds transfer through participants in a payment system



Key



Originator



Payment order/advice of credit



Beneficiary



Payment/settlement



Receiving bank

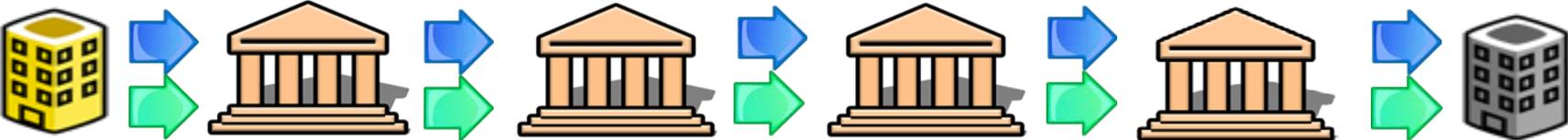


Payment system
(clearing and settlement)

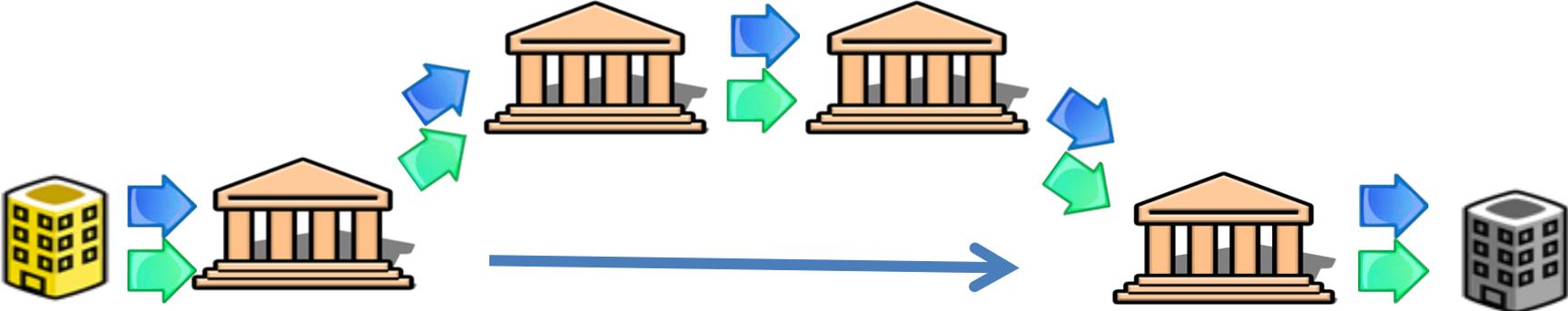


Funds transfer basics

Funds transfer through different correspondent (intermediary) banks



Cover payment (funds transfer through different correspondent (intermediary) banks)



Key

	Originator		Payment order/advice of credit
	Beneficiary		Payment/settlement
	Receiving bank		

Some key questions for making a payment

- What laws/rules govern my payment?
- When have I made my payment to the beneficiary?
- What if my payment is not completed?
- What's the role of my bank?
- What if someone sends an unauthorized payment from my account?



What governs my payment?

- Article 4A is a legal framework for *credit transfers* (pushes of bank credit) based on *payment orders* (unconditional instructions) sent to one or more receiving *banks* so that an originator (payor) may effect payment to a beneficiary (payee)
 - The originator is the first party to send a payment order to a receiving bank
 - A sender is obliged to pay its receiving bank if the bank accepts the payment order
 - The funds transfer is completed when the beneficiary's bank accepts
- Key point:
 - Article 4A is intended to cover the entire funds transfer through the banking system
- Key question: What are some key exclusions?
 - Debit transfers, most consumer transfers, nonbank transfers, conditional orders, orders to pay something other than money
 - Jurisdictional limits

Sources: UCC §§ 4A-103, 4A-104, 4A-108, 4A-209, 4A-402, 4A-507



What governs my payment?

- If Article 4A does not apply to a transfer, it may be governed by:
 - Consumer law (e.g., Regulation E, 12 CFR part 1005)
 - Contract law (including payment system rules)
 - Common law principles /analogies to other UCC provisions
- Considerations
 - Consumer law is typically limited in scope
 - Contracts are limited by privity; bargaining power may be limited
 - Applying common law principles or analogies to other UCC provisions creates uncertainty and may lead to unexpected outcomes
 - *Delbrueck & Co. v. Manufacturers Hanover Trust Co.*, 609 F.2d 1047 (2d Cir. 1979)
 - *Evra Corp. v. Swiss Bank Corp.*, 673 F.2d 951 (7th Cir. 1982)
 - Contracts and common law may supplement Article 4A's provisions, *but*
 - Article 4A largely displaces common law; and
 - Certain aspects of Article 4A may not be varied by agreement



Article 4A: When have I made payment?

- Payment by the originator to the beneficiary
 - Payment occurs at the time a payment order for the benefit of the beneficiary is accepted by the beneficiary's bank
 - If payment is made to satisfy an obligation, except in very limited circumstances, the obligation is also discharged at this time
- Beneficiary's bank accepts a payment order at the earlier of the time
 - The beneficiary's bank pays or notifies the beneficiary
 - The beneficiary's bank is paid (e.g., through a Reserve Bank)
 - The open of the next funds-transfer business day if sender funds are available to the beneficiary's bank
- Key question:
 - How is this addressed in a contract?

Sources: UCC §§ 4A-209, 4A-403, 4A-405, 4A-406



Article 4A: What if my payment isn't completed?

- Article 4A's money-back guarantee obliges each receiving bank to refund its sender the amount the sender paid if a funds transfer is not completed
 - Obligation to refund arises even if receiving bank is not paid a refund
 - Subrogation provision provides limited exception if sender chose to route the funds transfer through a particular intermediary bank
 - If a funds transfer is completed on the basis of an error, Article 4A's error resolution provisions will also apply, and they generally allocate losses, if any, to the party that made the error
- Key point: Article 4A's money-back guarantee may not be varied by agreement
- Key questions:
 - If not governed by Article 4A, how is this addressed in a contract?
 - Is a contractual right sufficient to replace Article 4A's statutory right?

Sources: UCC §§ 4A-207, 4A-208, 4A-303, 4A-402



Article 4A: What's the role of my bank?

- Article 4A outlines the responsibilities of receiving banks acting throughout the funds transfer
- For example, as a general matter
 - In executing, receiving banks must comply with senders' orders (UCC § 4A-302)
 - Receiving banks are responsible for their own errors in execution (UCC § 4A-303)
 - e.g., duplicates, errors in amount, and misidentified beneficiaries
 - All senders, including receiving banks as senders, are obliged to pay their receiving banks (UCC §§ 4A-402, 4A-403)
 - Beneficiary's banks that accept payment orders are obliged to give notice and pay the beneficiaries (UCC §§ 4A-404, 4A-405)



Article 4A: What's the role of my bank?

- Article 4A also outlines what is not a receiving bank responsibility
- For example, as a general matter
 - Receiving banks are not required to accept payment orders (UCC § 4A-212 cmt.)
 - Receiving banks are not required to detect sender errors (UCC § 4A-205 cmt. 1)
 - Receiving bank liability for late or improper execution or failure to execute is limited to interest losses and certain expenses (UCC § 4A-305)
 - i.e., consequential damages are not recoverable
 - Receiving banks are not responsible to indirect parties (UCC § 4A-402 cmt. 3)
 - Receiving banks are not exposed to displaced common law claims (UCC § 4A-102 cmt.)
- Key question:
 - Can the responsibilities of all parties be addressed by contract?



Article 4A: What about unauthorized transfers?

- Senders are not obliged to pay for unauthorized payment orders, *unless*
 - The sender and receiving bank have agreed to use a security procedure to verify payment orders;
 - The receiving bank applies the security procedure and acts in good faith in executing the payment order; and
 - The security procedure is commercially reasonable (or deemed to be)
- Regardless, the sender is not obliged to pay for an unauthorized payment order if the sender proves it was caused by a “true interloper”
- Key point:
 - Receiving banks may not shift additional liability to senders by agreement
- Key questions:
 - How is this addressed in a contract?
 - Are contractual rights sufficient to replace Article 4A’s statutory rights?

