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HOUSE BILL NO. 2382

Offered January 20, 1997

A BILL to amend and reenact §§ 8.1-105, 8.2-512, 8.9-103, 8.9-104, 8.9-105, 8.9-106, 8.9-304 and 8.9-305 of the Code of Virginia; to amend the Code of Virginia by adding a title numbered 8.5A, consisting of sections numbered 8.5A-101 through 8.5A-118; and to repeal Title 8.5 (§§ 8.5-101 through 8.5-117) of the Code of Virginia, relating to the Uniform Commercial Code; letters of credit.

Patron—Woodrum

Referred to Committee on Corporations, Insurance and Banking

Be it enacted by the General Assembly of Virginia:

1. That §§ 8.1-105, 8.2-512, 8.9-103, 8.9-104, 8.9-105, 8.9-106, 8.9-304 and 8.9-305 of the Code of Virginia are amended and reenacted and that the Code of Virginia is amended by adding a title numbered 8.5A, consisting of sections numbered 8.5A-101 through 8.5A-118, as follows:

§ 8.1-105. (Effective January 1, 1997) Territorial application of the act; parties' power to choose applicable law.

(1) Except as provided hereafter in this section, when a transaction bears a reasonable relation to this Commonwealth and also to another state or nation the parties may agree that the law either of this Commonwealth or of such other state or nation shall govern their rights and duties. Failing such agreement this act applies to transactions bearing an appropriate relation to this Commonwealth.

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

Rights of creditors against sold goods. § 8.2-402.

Applicability of the title on leases. §§ 8.2A-105 and 8.2A-106.

Applicability of the title on bank deposits and collections. § 8.4-102.

Applicability of the title on funds transfers. § 8.4A-507.

Letters of credit. § 8.5A-116.

Bulk transfers subject to the title on bulk transfers. § 8.6-102.

Applicability of the title on investment securities. § 8.8A-110.

Perfection provisions of the title on secured transactions. § 8.9-103.

§ 8.2-512. Payment by buyer before inspection.

(1) Where the contract requires payment before inspection nonconformity of the goods does not excuse the buyer from so making payment unless

(a) the nonconformity appears without inspection; or

(b) despite tender of the required documents the circumstances would justify injunction against honor under the provisions of this act (§ 8.5-114) § 8.5A-109 (b).

(2) Payment pursuant to subsection (1) does not constitute an acceptance of goods or impair the buyer's right to inspect or any of his remedies.

*Title 8.5A.**Uniform Commercial Code — Letters of Credit.*

§ 8.5A-101. Short title.

This title may be cited as Uniform Commercial Code—Letters of Credit (1995).

§ 8.5A-102. Definitions.

(a) In this title:

(1) "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.

(2) "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.

(3) "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.

(4) "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.

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

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60 (6) "Document" means a draft or other demand, document of title, investment security, certificate,
61 invoice, or other record, statement, or representation of fact, law, right, or opinion (i) which is
62 presented in a written or other medium permitted by the letter of credit or, unless prohibited by the
63 letter of credit, by the standard practice referred to in § 8.5A-108(e) and (ii) which is capable of being
64 examined for compliance with the terms and conditions of the letter of credit. A document may not be
65 oral.

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

67 (8) "Honor" of a letter of credit means performance of the issuer's undertaking in the letter of credit
68 to pay or deliver an item of value. Unless the letter of credit otherwise provides, "honor" occurs

69 (i) upon payment;

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

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

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

76 (10) "Letter of credit" means a definite undertaking that satisfies the requirements of § 8.5A-104 by
77 an issuer to a beneficiary at the request or for the account of an applicant or, in the case of a financial
78 institution, to itself or for its own account, to honor a documentary presentation by payment or delivery
79 of an item of value.

80 (11) "Nominated person" means a person whom the issuer (i) designates or authorizes to pay,
81 accept, negotiate, or otherwise give value under a letter of credit and (ii) undertakes by agreement or
82 custom and practice to reimburse.

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

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

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

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

93 (b) Definitions in other titles applying to this title and the sections in which they appear are:

94 "Accept" or "Acceptance" - § 8.3A-409.

95 "Value" - §§ 8.3A-303 and 8.4A-211.

96 (c) Title 8.1 contains certain additional general definitions and principles of construction and
97 interpretation applicable throughout this title.

98 § 8.5A-103. Scope.

99 (a) This title applies to letters of credit and to certain rights and obligations arising out of
100 transactions involving letters of credit.

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

103 (c) With the exception of this subsection, subsections (a) and (d), §§ 8.5A-102(a)(9) and (10),
104 8.5A-106(d), and 8.5A-114(d), and except to the extent prohibited in §§ 8.1-102(3) and 8.5A-117(d), the
105 effect of this title may be varied by agreement or by a provision stated or incorporated by reference in
106 an undertaking. A term in an agreement or undertaking generally excusing liability or generally limiting
107 remedies for failure to perform obligations is not sufficient to vary obligations prescribed by this title.

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

112 § 8.5A-104. Formal requirements.

113 A letter of credit, confirmation, advice, transfer, amendment, or cancellation may be issued in any
114 form that is a record and is authenticated (i) by a signature or (ii) in accordance with the agreement of
115 the parties or the standard practice referred to in § 8.5A-108(e).

116 § 8.5A-105. Consideration.

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

119 § 8.5A-106. Issuance, amendment, cancellation, and duration.

120 (a) A letter of credit is issued and becomes enforceable according to its terms against the issuer
121 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.

(b) 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.

(c) 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.

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

§ 8.5A-107. Confirmer, nominated person, and adviser.

(a) 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.

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

(c). 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.

(d) 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 (c). 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.

§ 8.5A-108. Issuer's rights and obligations.

(a) Except as otherwise provided in § 8.5A-109, an issuer shall honor a presentation that, as determined by the standard practice referred to in subsection (e), appears on its face strictly to comply with the terms and conditions of the letter of credit. Except as otherwise provided in § 8.5A-113 and unless otherwise agreed with the applicant, an issuer shall dishonor a presentation that does not appear so to comply.

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

(1) to honor;

(2) if the letter of credit provides for honor to be completed more than seven business days after presentation, to accept a draft or incur a deferred obligation; or

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

(c) Except as otherwise provided in subsection (d), 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.

(d) Failure to give the notice specified in subsection (b) 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 § 8.5A-109(a) or expiration of the letter of credit before presentation.

(e) 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.

(f) An issuer is not responsible for:

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

(2) an act or omission of others; or

(3) observance or knowledge of the usage of a particular trade other than the standard practice referred to in subsection (e).

(g) If an undertaking constituting a letter of credit under § 8.5A-102(a)(10) contains nondocumentary conditions, an issuer shall disregard the nondocumentary conditions and treat them as if they were not stated.

(h) 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.

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

183 (1) is entitled to be reimbursed by the applicant in immediately available funds not later than the
184 date of its payment of funds;

185 (2) takes the documents free of claims of the beneficiary or presenter;

186 (3) is precluded from asserting a right of recourse on a draft under §§ 8.3A-414 and 8.3A-415;

187 (4) except as otherwise provided in §§ 8.5A-110 and 8.5A-117, is precluded from restitution of
188 money paid or other value given by mistake to the extent the mistake concerns discrepancies in the
189 documents or tender which are apparent on the face of the presentation; and

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

192 § 8.5A-109. Fraud and forgery.

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

196 (1) the issuer shall honor the presentation, if honor is demanded by (i) a nominated person who has
197 given value in good faith and without notice of forgery or material fraud, (ii) a confirmer who has
198 honored its confirmation in good faith, (iii) a holder in due course of a draft drawn under the letter of
199 credit which was taken after acceptance by the issuer or nominated person, or (iv) an assignee of the
200 issuer's or nominated person's deferred obligation that was taken for value and without notice of forgery
201 or material fraud after the obligation was incurred by the issuer or nominated person; and

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

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

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

209 (2) a beneficiary, issuer, or nominated person who may be adversely affected is adequately protected
210 against loss that it may suffer because the relief is granted;

211 (3) all of the conditions to entitle a person to the relief under the law of this Commonwealth have
212 been met; and

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

216 § 8.5A-110. Warranties.

217 (a) If its presentation is honored, the beneficiary warrants:

218 (1) to the issuer, any other person to whom presentation is made, and the applicant that there is no
219 fraud or forgery of the kind described in § 8.5A-109(a); and

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

222 (b) The warranties in subsection (a) are in addition to warranties arising under Titles 8.3A, 8.4, 8.7,
223 and 8.8A because of the presentation or transfer of documents covered by any of those titles.

224 § 8.5A-111. Remedies.

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

236 (b) If an issuer wrongfully dishonors a draft or demand presented under a letter of credit or honors
237 a draft or demand in breach of its obligation to the applicant, the applicant may recover damages
238 resulting from the breach, including incidental but not consequential damages, less any amount saved as
239 a result of the breach.

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

and (b).

(d) An issuer, nominated person, or adviser who is found liable under subsection (a), (b), or (c) shall pay interest on the amount owed thereunder from the date of wrongful dishonor or other appropriate date.

(e) 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 title.

(f) Damages that would otherwise be payable by a party for breach of an obligation under this title 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.

§ 8.5A-112. Transfer of letter of credit.

(a) Except as otherwise provided in § 8.5A-113, 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.

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

(1) the transfer would violate applicable law; or

(2) 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 which is within the standard practice referred to in § 8.5A-108(e) or is otherwise reasonable under the circumstances.

§ 8.5A-113. Transfer by operation of law.

(a) 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.

(b) 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 (e), 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 § 8.5A-108(e) or, in the absence of such a practice, compliance with other reasonable procedures sufficient to protect the issuer.

(c) 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.

(d) Honor of a purported successor's apparently complying presentation under subsection (a) or (b) has the consequences specified in § 8.5A-108(i) 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 § 8.5A-109.

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

(f) 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.

§ 8.5-114. Assignment of proceeds.

(a) 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.

(b) 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.

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

(d) 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.

(e) 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.

(f) 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 third 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

306 or granting an assignment of a beneficiary's rights to proceeds is governed by Title 8.9 or other law.
307 Against persons other than the issuer, transferee beneficiary, or nominated person, the rights and
308 obligations arising upon the creation of a security interest or other assignment of a beneficiary's right
309 to proceeds and its perfection are governed by Title 8.9 or other law.

310 § 8.5A-115. Statute of limitations.

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

315 § 8.5A-116. Choice of law and forum.

316 (a) The liability of an issuer, nominated person, or adviser for action or omission is governed by the
317 law of the jurisdiction chosen by an agreement in the form of a record signed or otherwise
318 authenticated by the affected parties in the manner provided in § 8.5A-104 or by a provision in the
319 person's letter of credit, confirmation, or other undertaking. The jurisdiction whose law is chosen need
320 not bear any relation to the transaction.

321 (b) Unless subsection (a) applies, the liability of an issuer, nominated person, or adviser for action
322 or omission is governed by the law of the jurisdiction in which the person is located. The person is
323 considered to be located at the address indicated in the person's undertaking. If more than one address
324 is indicated, the person is considered to be located at the address from which the person's undertaking
325 was issued. For the purpose of jurisdiction, choice of law, and recognition of interbranch letters of
326 credit, but not enforcement of a judgment, all branches of a bank are considered separate juridical
327 entities and a bank is considered to be located at the place where its relevant branch is considered to
328 be located under this subsection.

329 (c) Except as otherwise provided in this subsection, the liability of an issuer, nominated person, or
330 adviser is governed by any rules of custom or practice, such as the Uniform Customs and Practice for
331 Documentary Credits, to which the letter of credit, confirmation, or other undertaking is expressly made
332 subject. If (i) this title would govern the liability of an issuer, nominated person, or adviser under
333 subsection (a) or (b), (ii) the relevant undertaking incorporates rules of custom or practice, and (iii)
334 there is conflict between this title and those rules as applied to that undertaking, those rules govern
335 except to the extent of any conflict with the nonvariable provisions specified in § 8.5A-103(c).

336 (d) If there is conflict between this title and Titles 8.3, 8.4, 8.4A, or 8.9, this title governs.

337 (e) The forum for settling disputes arising out of an undertaking within this title may be chosen in
338 the manner and with the binding effect that governing law may be chosen in accordance with subsection
339 (a).

340 § 8.5A-117. Subrogation of issuer, applicant, and nominated person.

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

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

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

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

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

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

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

362 § 8.5A-118. Applicability.

363 This title applies to a letter of credit that is issued on or after January 1, 1998. This title does not
364 apply to a transaction, event, obligation, or duty arising out of or associated with a letter of credit that
365 was issued before January 1, 1998. A transaction arising out of or associated with a letter of credit that
366 was issued before January 1, 1998, and the rights, obligations, and interests flowing from that
367 transaction are governed by Title 8.5 as it was effective on December 31, 1997, as if repeal or

amendment had not occurred and may be terminated, completed, consummated, or enforced under that statute.

§ 8.9-103. (Effective January 1, 1997) Perfection of security interests in multiple state transactions.

(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) of this section, mobile goods described in subsection (3) of this section, and minerals described in subsection (5) of this section.

(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 interest from the time it attaches until thirty 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 thirty-day period.

(d) When collateral is brought into and kept in this Commonwealth 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 (§ 8.9-301 et seq.) of this title 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 four months after the collateral is brought into this Commonwealth, 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 (i) of this paragraph, the security interest continues perfected thereafter;

(iii) for the purpose of priority over a buyer of consumer goods as provided for in subsection (2) of § 8.9-307, 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 (i) and (ii) of this paragraph.

(2) Certificate of title. - (a) This subsection applies to goods covered by a certificate of title issued under a statute of this Commonwealth or of another jurisdiction under the law of which indication of a security interest on the certificate is required as a condition of perfection.

(b) Except as otherwise provided in this subsection, perfection and the effect of perfection or nonperfection of the security interest are governed by the law, including the conflict of laws rules, of the jurisdiction issuing the certificate until four months after the goods are removed from that jurisdiction and thereafter until the goods are registered in another jurisdiction, but in any event not beyond surrender of the certificate. After the expiration of that period, the goods are not covered by the certificate of title within the meaning of this section.

(c) Except with respect to the rights of a buyer described in the next paragraph, a security interest, perfected in another jurisdiction otherwise than by notation on a certificate of title, in goods brought into this Commonwealth and thereafter covered by a certificate of title issued by this Commonwealth is subject to the rules stated in paragraph (d) of subsection (1) of this section.

(d) If goods are brought into this Commonwealth while a security interest therein is perfected in any manner under the law of the jurisdiction from which the goods are removed and a certificate of title is issued by this Commonwealth and the certificate does not show that the goods are subject to the security interest or that they may be subject to security interests not shown on the certificate, the security interest is subordinate to the rights of a buyer of the goods who is not in the business of selling goods of that kind to the extent that he gives value and receives delivery of the goods after issuance of the certificate and without knowledge of the security interest.

(3) Accounts, general intangibles and mobile goods. - (a) This subsection applies to accounts, other than an account described in subsection (5) of this section and general intangibles (other than uncertificated securities) and to goods which are mobile and which are of a type normally used in more than one jurisdiction, such as motor vehicles, trailers, rolling stock, airplanes, shipping containers, road building and construction machinery and commercial harvesting machinery and the like, if the goods are equipment or are inventory leased or held for lease by the debtor to others, and are not covered by a certificate of title described in subsection (2) of this section.

(b) The law, including the conflict of laws rules, of the jurisdiction in which the debtor is located governs the perfection and the effect of perfection or nonperfection of the security interest.

(c) If, however, the debtor is located in a jurisdiction which is not a part of the United States, and which does not provide for perfection of the security interest by filing or recording in that jurisdiction,

429 the law of the jurisdiction in the United States in which the debtor has its major executive office in the
430 United States governs the perfection and the effect of perfection or nonperfection of the security interest
431 through filing. In the alternative, if the debtor is located in a jurisdiction which is not a part of the
432 United States or Canada and the collateral is accounts or general intangibles for money due or to
433 become due, the security interest may be perfected by notification to the account debtor. As used in this
434 paragraph, "United States" includes its territories and possessions and the Commonwealth of Puerto
435 Rico.

436 (d) A debtor shall be deemed located at his place of business if he has one, at his chief executive
437 office if he has more than one place of business, otherwise at his residence. If, however, the debtor is a
438 foreign air carrier under the Federal Aviation Act of 1958, as amended, it shall be deemed located at the
439 designated office of the agent upon whom service of process may be made on behalf of the foreign air
440 carrier.

441 (e) A security interest perfected under the law of the jurisdiction of the location of the debtor is
442 perfected until the expiration of four months after a change of the debtor's location to another
443 jurisdiction, or until perfection would have ceased by the law of the first jurisdiction, whichever period
444 first expires. Unless perfected in the new jurisdiction before the end of that period, it becomes
445 unperfected thereafter and is deemed to have been unperfected as against a person who became a
446 purchaser after the change.

447 (4) Chattel paper. - The rules stated for goods in subsection (1) of this section apply to a possessory
448 security interest in chattel paper. The rules stated for accounts in subsection (3) of this section apply to
449 a nonpossessory security interest in chattel paper, but the security interest may not be perfected by
450 notification to the account debtor.

451 (5) Minerals. - Perfection and the effect of perfection or nonperfection of a security interest which is
452 created by a debtor who has an interest in minerals or the like, including oil and gas, before extraction
453 and which attaches thereto as extracted, or which attaches to an account resulting from the sale thereof
454 at the wellhead or minehead are governed by the law, including the conflict of laws rules, of the
455 jurisdiction wherein the wellhead or minehead is located.

456 (6) Investment property. - (a) This subsection applies to investment property.

457 (b) Except as otherwise provided in paragraph (f), during the time that a security certificate is located
458 in a jurisdiction, perfection of a security interest, the effect of perfection or non-perfection, and the
459 priority of a security interest in the certificated security represented thereby are governed by the local
460 law of that jurisdiction.

461 (c) Except as otherwise provided in paragraph (f), perfection of a security interest, the effect of
462 perfection or non-perfection, and the priority of a security interest in an uncertificated security are
463 governed by the local law of the issuer's jurisdiction as specified in § 8.8A-110 (d).

464 (d) Except as otherwise provided in paragraph (f), perfection of a security interest, the effect of
465 perfection or non-perfection, and the priority of a security interest in a security entitlement or securities
466 account are governed by the local law of the securities intermediary's jurisdiction as specified in
467 § 8.8A-110 (e).

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

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

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

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

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

488 (f) Perfection of a security interest by filing, automatic perfection of a security interest in investment
489 property granted by a broker or securities intermediary, and automatic perfection of a security interest in
490 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.

§ 8.9-104. Transactions excluded from title.

This title does not apply

(a) to a security interest subject to any statute of the United States such as the Ship Mortgage Act, 1920, to the extent that such statute governs the rights of parties to and third parties affected by transactions in particular types of property; or

(b) to a landlord's lien; or

(c) to a lien given by statute or other rule of law for services or materials except as provided in § 8.9-310 on priority of such liens; or

(d) to a transfer of a claim for wages, salary or other compensation of an employee; or

(e) [Repealed.]

(f) to a sale of accounts or chattel paper as part of a sale of the business out of which they arose, or an assignment of accounts or chattel paper which is for the purpose of collection only, or a transfer of a right to payment under a contract to an assignee who is also to do the performance under the contract or a transfer of a single account to an assignee in whole or partial satisfaction of a preexisting indebtedness; or

(g) to a transfer of an interest or claim in or under any policy of insurance or contract for an annuity, including a variable annuity, except as provided with respect to proceeds (§ 8.9-306) and priorities in proceeds (§ 8.9-312); or

(h) to a right represented by a judgment (other than a judgment taken on a right to payment which was collateral); or

(i) to any right of setoff; or

(j) except to the extent that provision is made for fixtures in § 8.9-313, to the creation or transfer of an interest in or lien on real estate, including a lease or rents thereunder; or

(k) to a transfer in whole or in part of any claim arising out of tort; ~~or~~

(l) to a transfer of an interest in any deposit account (subsection (1) of § 8.9-105), except as provided with respect to proceeds (§ 8.9-306) and priorities in proceeds (§ 8.9-312); *or*

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

§ 8.9-105. (Effective January 1, 1997) Definitions and index of definitions.

(1) In this title unless the context otherwise requires:

(a) "Account debtor" means the person who is obligated on an account, chattel paper or general intangible;

(b) "Chattel paper" means a writing or writings which evidence both a monetary obligation and a security interest in or a lease of specific goods, but a charter or other contract involving the use or hire of a vessel is not chattel paper. When a transaction is evidenced both by such a security agreement or a lease and by an instrument or a series of instruments, the group of writings taken together constitutes chattel paper;

(c) "Collateral" means the property subject to a security interest, and includes accounts and chattel paper which have been sold;

(d) "Debtor" means the person who owes payment or other performance of the obligation secured, whether or not he owns or has rights in the collateral, and includes the seller of accounts or chattel paper. Where the debtor and the owner of the collateral are not the same person, the term "debtor" means the owner of the collateral in any provision of the title dealing with the collateral, the obligor in any provision dealing with the obligation, and may include both where the context so requires;

(e) "Deposit account" means a demand, time, savings, passbook or like account maintained with a bank, savings institution, credit union or like organization, other than an account evidenced by a certificate of deposit;

(f) "Document" means document of title as defined in the general definitions of Title 8.1 within § 8.1-201, and a receipt of the kind described in subsection (2) of § 8.7-201;

(g) "Encumbrance" includes real estate mortgages and other liens on real estate and all other rights in real estate that are not ownership interests;

(h) "Goods" includes all things which are movable at the time the security interest attaches or which are fixtures as provided in § 8.9-313, but does not include money, documents, instruments, investment property, commodity contracts, accounts, chattel paper, general intangibles, or minerals or the like (including oil and gas) before extraction. "Goods" also includes standing timber which is to be cut and removed under a conveyance or contract for sale, the unborn young of animals, and growing crops;

(i) "Instrument" means a negotiable instrument as defined in § 8.3A-104, Title 8.8A or any other writing which evidences a right to the payment of money and is not itself a security agreement or lease and is of a type which is in ordinary course of business transferred by delivery with any necessary indorsement or assignment, and the term does not include investment property;

552 (j) "Mortgage" means a consensual interest created by a real estate mortgage, a trust deed on real
553 estate, or the like;

554 (k) An advance is made "pursuant to commitment" if the secured party has bound himself to make it,
555 whether or not a subsequent event of default or other event not within his control has relieved or may
556 relieve him from his obligation;

557 (l) "Security agreement" means an agreement which creates or provides for a security interest;

558 (m) "Secured party" means a lender, seller or other person in whose favor there is a security interest,
559 including a person to whom accounts or chattel paper have been sold. When the holders of obligations
560 issued under an indenture of trust, equipment trust agreement or the like are represented by a trustee or
561 other person, either the lender, seller or other person in whose favor there is a security interest or the
562 representative is the secured party. The person shown on a filed financing statement as the secured party
563 shall be treated as the secured party of record.

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

565 "Account." § 8.9-106.

566 "Attach." § 8.9-203.

567 "Commodity contract." § 8.9-115.

568 "Commodity customer." § 8.9-115.

569 "Commodity intermediary." § 8.9-115.

570 "Construction mortgage." § 8.9-313 (1).

571 "Consumer goods." § 8.9-109 (1).

572 "Control." § 8.9-115.

573 "Equipment." § 8.9-109 (2).

574 "Farm products." § 8.9-109 (3).

575 "Fixture." § 8.9-313.

576 "Fixture filing." § 8.9-313.

577 "General intangibles." § 8.9-106.

578 "Inventory." § 8.9-109 (4).

579 "Investment property." § 8.9-115.

580 "Lien creditor." § 8.9-301 (3).

581 "Proceeds." § 8.9-306 (1).

582 "Purchase money security interest." § 8.9-107.

583 "United States." § 8.9-103.

584 (3) The following definitions in other titles apply to this title:

585 "Broker." § 8.8A-102.

586 "Certificated security." § 8.8A-102.

587 "Check." § 8.3A-104.

588 "Clearing corporation." § 8.8A-102.

589 "Contract for sale." § 8.2-106.

590 "Control." § 8.8A-106.

591 "Delivery." § 8.8A-301.

592 "Entitlement holder." § 8.8A-102.

593 "Financial asset." § 8.8A-102.

594 "Holder in due course." § 8.3A-302.

595 "*Letter of credit*." § 8.5A-102.

596 "Note." § 8.3A-104.

597 "*Proceeds of a letter of credit*." § 8.5A-114(a).

598 "Sale." § 8.2-106.

599 "Securities intermediary." § 8.8A-102.

600 "Security." § 8.8A-102.

601 "Security certificate." § 8.8A-102.

602 "Security entitlement." § 8.8A-102.

603 "Uncertificated security." § 8.8A-102.

604 (4) In addition, Title 8.1 contains general definitions and principles of construction and interpretation
605 applicable throughout this title.

606 § 8.9-106. (Effective January 1, 1997) Definitions: "Account"; "general intangibles."

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

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

613 § 8.9-304. (Effective January 1, 1997) 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 instruments which constitute part of chattel paper, can be perfected only by the secured party's taking possession, except as provided in subsections (4) and (5) of this section and subsections (2) and (3) of § 8.9-306 on proceeds.

(2) During the period that goods are in the possession of the issuer of a negotiable document therefor, a security interest in the 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, certificated securities or negotiable documents is perfected without filing or the taking of possession for a period of twenty-one 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 twenty-one days without filing where a secured party having a perfected security interest in an instrument, 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 purpose 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 subsection (3) of § 8.9-312; or

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

(6) After the twenty-one-day period in subsections (4) and (5) of this section perfection depends upon compliance with applicable provisions of this title.

§ 8.9-305. (Effective January 1, 1997) When possession by secured party perfects security interest without filing.

~~A security interest in letters of credit and advices of credit as provided in paragraph (a) of subsection (2) of § 8.5-116,~~ goods, instruments, 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 title. The security interest may be otherwise perfected as provided in this title before or after the period of possession by the secured party.

2. That Title 8.5 (§§ 8.5-101 through 8.5-118) of the Code of Virginia is repealed.

3. That the provisions of this act shall become effective on January 1, 1998.