



## **WHY STATES SHOULD ADOPT REVISED ARTICLE 7 OF THE UNIFORM COMMERCIAL CODE (2003)**

Article 7 of the Uniform Commercial Code governs rights to goods during commercial storage and shipment of goods (held by a bailee). In particular, rights in goods transfer by transferring the documents of title. Key to any Article 7 discussion is the concept of “negotiation” of documents of title. Negotiation enables parties to transfer goods without fear that a third person may have a claim against the transferee of goods. Negotiation of documents of title presupposes paper documents. Electronic documents of title require different concepts and terms to provide the same transfer effect as negotiable paper documents of title. Revised Article 7 introduces electronic documents of title to the fundamental commercial law.

Revised Article 7 contains these necessary changes which every state should adopt:

- **Control** – Control of an electronic document of title is the conceptual equivalent to possession and indorsement of a tangible document of title. The concept of “control” is the alternative adopted by the revisions and defined in Section 7-106. A person has “control” of a document of title for Article 7 purposes “if a system employed for evidencing the transfer of interests in the electronic document reliably establishes that person as the person to which the electronic document was issued or transferred.” There is more than one way to meet this set of standards, unlike negotiation of a paper document.
- **Statute of Frauds** – Revised Article 7 extends statute of fraud requirements to include electronic records and signatures by creating new definitions of “record” and “sign.” The new definitions recognize information stored in electronic format and electronic symbols, respectively. The term “writing” is replaced with the term “record” wherever used in the Article.
- **Interchangeability** - Revised Article 7 permits the conversion of electronic documents to tangible documents and vice versa. An electronic document may be converted when the person in control surrenders control to the issuer, which then issues a tangible document of title containing a statement that it substitutes for the electronic document. A similar process is in place for converting a tangible document to an electronic one. Section 7-105 lists the minimum requirements that must be filled to give effect to the substitute document.

The revisions to UCC Article 7 clarify and update existing rules of law to include electronic documents of title. They have been endorsed widely. They bring state law in line with federal law. With the increased use and reliance upon electronic documents of title, the new rules are necessary to ensure that the law remains consistent with the demands of developing technology.