

to as the "editorial board"; the uniform commercial code, 1958 official text, is hereinafter sometimes referred to as the "UCC"; the District of Columbia Code, 1961 edition, is hereinafter sometimes referred to as the "D.C. Code"; and section references unless otherwise specified pertain to the UCC.

The editorial board in the 1962 recommendations is recommending all the modifications set forth below (except Nos. 8, 9, and 20) for the reasons mentioned immediately following the respective proposals. This committee concurs. Modifications Nos. 9 and 20 set forth below originated in the District of Columbia, and, insofar as the committee knows, were not considered by the editorial board.

Each State mentioned below as a source for a proposal means the uniform commercial code as enacted in that State.

RECOMMENDATIONS AND COMMENTS

This committee recommends that the board of directors approve the following resolutions (the comments and other explanatory statements not being deemed part of the resolution):

I

Resolved, That the uniform commercial code proposed for enactment for the District of Columbia, in addition to the modifications approved by this board (pp. 602 to 606 of the November 1962 issue of the journal of this association), be subject to further modification for accomplishment of the following:

1. In subsection 1-201(27), add the following additional sentences: "An organization exercises due diligence if it maintains reasonable routines for communicating significant information to the person conducting the transaction and there is reasonable compliance with the routines. Due diligence does not require an individual acting for the organization to communicate information unless such communication is part of his regular duties or unless he has reason to know of the transaction and that the transaction would be materially affected by the information."

Comment of the editorial board

"The change in subsection (27) clarifies the scope of 'due diligence' as used in the subsection. The New York Clearing House Association expressed the fear that the original subsection would require any large business organization to make an extensive investigation, before purchasing commercial paper or investment securities, as to whether it had notice of an adverse claim. As revised, the subsection removes any basis for the fear, but retains the same standard for financial institutions as for other organizations, and applies equally to protect an organization located in a single place and an organization operating through two or more branches. The change is intended to render unnecessary nonuniform amendments to sections 3-304 and 8-304 enacted in New York and nonuniform amendments to section 4-106 enacted in Massachusetts and New York."

2. In subsection 3-105(1)(c), add after "agreement": "or refers to a separate agreement for rights as to prepayment or acceleration."

Comment of the editorial board

"Notes very commonly provide that they may be accelerated or prepaid in accordance with the terms of a loan agreement or mortgage of a particular date. Such notes were regarded as negotiable under the NIL, but doubt as to their status under the code has arisen. The additional words are intended to remove these doubts."

The source of this proposal is New York.

3. Subsection 3-112(1)(b) should be revised to read as follows:

"(b) a statement that collateral has been given to secure obligations either on the instrument or otherwise of an obligor on the instrument or in the case of default on those obligations the holder may realize on or dispose of the collateral; or"

Comment of the editorial board

"The added language is designed to avoid any possibility that standard cross-collateral provisions found in substantially all bank collateral note forms will render the notes nonnegotiable. That result was never intended."

The source of this proposal is Massachusetts.

4. Subsection 3-122(4)(a) should be revised to read as follows:

"(a) in the case of a maker, acceptor, or other primary obligor of a demand instrument, from the date of demand;"