Comparative Analysis: Agents’ Personal Liability on Negotiable Instruments

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Abstract

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KEYWORDS: Comparative, Liability, Negotiable
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I. Introduction

Negotiable instruments receive similar treatment in many developed nations. Justice Story noted one hundred and forty years ago that "[t]he law respecting negotiable instruments may be truly declared, in the language of Cicero, adopted by Lord Mansfield . . . to be in great measure, not the law of a single country only, but of the commercial world." Nevertheless, three major commercial law systems remain in the western world: the United States Uniform Commercial Code, the English Bills of Exchange Act, and the Geneva Conventions on negotiable instruments. This article compares these systems of negotiable instruments law by discussing the formal requirements for negotiable in-

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2. This article only discusses such negotiable instruments as checks, drafts which are governed by article 3 of the Uniform Commercial Code, promissory notes, and certificates of deposit. See U.C.C. § 3-104(2). All states have now adopted article 3 of the U.C.C. J. WHITE & R. SUMMERS, UNIFORM COMMERCIAL CODE 5 (2d ed. 1980). All citations to the U.C.C are to the 1972 official text unless otherwise indicated. Scholars have written excellent treatises and commentaries analysing United States law on negotiable instruments. See, e.g., J. WHITE & R. SUMMERS, supra; Holland, Corporate Officers Beware—Your Signature on a Negotiable Instrument May Be Hazardous to Your Health, 13 IND. L. REV. 893 (1980). A thorough discussion of United States law is beyond the scope of this article. The writer will identify significant legal provisions, issues, and policies only to the extent necessary for comparison with law of foreign jurisdictions.


4. June 7, 1980, 143 L.N.T.S. 259. The Geneva Conventions are the basis for commercial practices in several civil law jurisdictions in continental Europe. See infra note 181. French legal practices will be utilized to illustrate the effects of the Geneva Conventions on the law of a ratifying country.
instruments, the effects of negotiability, the rudiments of agency law, questions of conflict of laws, and proposals for reform, addressing the question: How may an agent avoid personal liability on a negotiable instrument he signs in his principal's behalf?

II. United States

A. Negotiable Instruments

A negotiable instrument is a written and signed promise or order to pay a sum certain in money to order or to bearer on demand or at a specific time. These instruments include drafts, checks, certificates of deposit, and promissory notes. A negotiable instrument confers legal rights on a holder separate from a party's rights on any underlying obligation. An obligor may be subject to suit either on or off the instrument. No one is liable on a negotiable instrument, however, unless

5. Whether an instrument is negotiable may determine whether a person obligated on the instrument may present personal defenses against a holder. See U.C.C. § 3-305. This note will, therefore, devote substantial attention to definition of negotiable instruments.

6. U.C.C. § 1-201(46) defines "writing" to include "printing, typewriting, or any other intentional reduction to tangible form."

7. U.C.C. § 3-104(1).

8. U.C.C. § 3-104(2).

9. U.C.C. § 1-201(20) defines "holder" as "a person who is in possession of a document of title or an instrument or a certificated investment security drawn, issued, or indorsed to him or his order or to bearer or in blank." A holder in due course is a holder who has purchased the negotiable instrument for value (defined in U.C.C. § 3-303 as a significant economic interest), in good faith, and without notice of any claim or defense to the instrument or of any violation of its provisions. U.C.C. § 3-302.

There can only be a holder in due course if the instrument is negotiable. See U.C.C. § 3-805. A holder in due course takes the instrument free from most defenses, including failure of consideration. U.C.C. § 3-305.

The Code distinguishes between real defenses, which an obligor may assert against a holder in due course (U.C.C. § 3-305), and personal defenses such as failure of consideration (U.C.C. § 3.408), which an obligor may not assert against a holder in due course. An agent may also escape liability on the instrument if his principal ratifies the signature; the agent then may be liable to the principal. U.C.C. § 3-404 official comment 3.

10. U.C.C. § 3-301.

11. U.C.C. § 3-802 qualifies this concept of obligations both on and off the instrument:

(1) unless otherwise agreed where an instrument is taken for an underlying obligation
his signature\textsuperscript{12} appears on the instrument\textsuperscript{13} or is firmly attached on an allonge.\textsuperscript{14}

The Code defines “signature” broadly. A signature may be “any symbol executed or adopted by a party with present intention to authenticate a writing.”\textsuperscript{15} The word “adopted” implies that after a mark is executed, a party may cause that mark to become his valid signature. The Official Comment advises courts to use “common sense and commercial experience” to determine whether a given mark constitutes a signature.\textsuperscript{16} Although a letterhead may be a signature for purposes of the Code,\textsuperscript{17} the finder of the fact should be loath to find a “signature” in such an improbable place.

B. Signature by Agent

Commercial practice requires, and article 3 affirms, that agents may obligate their principals without binding themselves on negotiable instruments if the agents are authorized to sign instruments and they sign according to the rigid forms prescribed by the Code. An agent may present the same defenses that his principal could assert in an action to enforce payment on a negotiable instrument. If the agent deviates from the Code’s requirements, he may find himself personally obligated and unable to assert a defense against a holder in due course.

\begin{itemize}
  \item[(a)] the obligation is pro tanto discharged if a bank is drawer, maker or acceptor of the instrument and there is no recourse on the instrument against the underlying obligor; and
  \item[(b)] in any other case the obligation is suspended pro tanto until the instrument is due or if it is payable on demand until its presentment. If the instrument is dishonored action may be maintained on either the instrument or the obligation; discharge of the underlying obligor on the instrument also discharges him on the obligation.
\end{itemize}

(2) The taking in good faith of a check which is not post dated does not of itself so extend the time on the original obligation as to discharge of surety.

\textit{Id.}

\textsuperscript{12} See U.C.C. § 3-401(2), defining “signature” broadly as “any name, including any trade or assume name . . . or by any word or mark used in lieu of a written signature.”

\textsuperscript{13} U.C.C. § 3-401.

\textsuperscript{14} U.C.C. § 3-401(1) and official comment 1, referring to U.C.C. § 3-202(2), which provides that an allonge is deemed to be part of the instrument to which it is attached.

\textsuperscript{15} U.C.C. § 1-201(39).

\textsuperscript{16} U.C.C. § 1-201 official comment 39.

\textsuperscript{17} \textit{Id.}
1. Form of Signature

An agent must satisfy stringent requirements for the form of his signature in order to obligate his principal and to escape personal liability on the instrument. Professor Arthur E. Sutherland summarized the effect of these provisions on signatures executed in both proper and improper form:

3-403(2) contemplates at least three different types of signatures:

(1) X. Inc. _________________ A. E. Brown
(2) X. Inc. _________________ by A. E. Brown, V.P.
(3) _________________ A. E. Brown, Vice President

Under 3-403(2), in case (1), as Mr. Brown did not indicate his representative capacity, both he and X Inc. are bound. In case (2), only X Inc. is bound because the instrument names the representative capacity. In the third case, although the unfortunate signer added words indicating a representative capacity, he failed to disclose his principal. Under these circumstances, X Inc. not being named, is not bound; and Brown is individually bound.\(^{19}\)

The signer of a negotiable instrument generally will be personally

\(^{18}\) U.C.C. § 3-403 provides:

(1) A signature may be made by an agent or other representative, and his authority to make it may be established as in any other cases of representation. No particular form of appointment is necessary to establish such authority.

(2) An authorized representative who signs his own name to an instrument

(a) is personally obligated if the instrument neither names the person represented nor shows that the representative signed in a representative capacity;

(b) except as otherwise established between the immediate parties, is personally obligated if the instrument names the person represented but does not show that the representative signed in a representative capacity, or if the instrument does not name the person represented but does show that the representative signed in a representative capacity.

liable unless the instrument indicates that he signed in a representative
capacity and the instrument also identifies the principal.\textsuperscript{20} The intro-
ductive phrase "except as otherwise established between the immediate
parties" indicates that this rule is not conclusive. An agent who appears
obligated on a negotiable instrument may in some cases escape liability
by presenting parol evidence showing the parties did not intend to bind
him. Courts will only admit parol evidence, however, if the instrument
contains an ambiguity placing the holder on notice that the intended
obligor may be someone other than the person who signed. A substan-
tial body of precedent has established that the requisite ambiguity may
exist anywhere on the face of the instrument; the form of the signature
need not place the holder on notice that the signer did not intend to be
bound.

In \textit{St. Croix Engineering Corp. v. McLay},\textsuperscript{21} the Minnesota Su-
preme Court admitted parol evidence as it held that the agent was not
personally obligated on the instrument.\textsuperscript{22} The court considered facts
indicating that the plaintiff knew initially that the defendant signed in a
representative capacity: the name, address, and logo of Mitronics, Inc.,
were printed in the upper left corner of each check; a check cutting
machine imprinted the written sum on each check; St. Croix knew Mc-
Lay did business as a corporation; St. Croix initially sued Mitronics,
Inc., rather than McLay; the plaintiff complained to Mitronics after
the checks were dishonored.\textsuperscript{23} The court found that section 3-403 re-
quired acknowledgement of agency on the instrument, but not necessa-
riely in the signature.\textsuperscript{24} The opinion recognized that the fact finder may
consider business practice and custom.\textsuperscript{25} The court also indicated in
dicta that it would be more likely to find an agent personally liable on a
corporate note than on a corporate check.\textsuperscript{26}

The Court of Appeals for the District of Columbia admitted parol
evidence to exonerate the defendant in *Chidakel v. Blonder*. Plaintiff sued Harvey and Florence Blonder on a note that provided:

For Value Received Discount Car Wash Number Five, A Va. Corp. promise [sic] to pay to the order of Pauline P. Chidakel the sum of One Hundred Thousand ($100,000.00) Dollars.

Attest: ________________ Discount Car Wash Number 5
(Initials “H.B.”) ____________________________ by (signature of Florence Blonder).28

The court found that Harvey was not bound because the face of the instrument revealed that he signed only as a witness.29 The opinion next recognized that this promissory note did not fall within any category in U.C.C. section 3-403; the note was a hybrid of sections 3-403(2)(b) and 3-403(3).30 Florence’s title did not follow her name, but her name followed the word “by” and was immediately below the name of the business. The opinion recognized that the face of the note indicated the person represented (Discount) and provided some evidence that Florence signed in a representative capacity.31 The court noted a split of authority over whether the word “by” may be evidence of representative rather than personal capacity,32 and held that parol evidence was admissible in this case to show the agent signed only in a representative capacity.

The *St. Croix Engineering Corp.* and *Chidakel* courts based their holdings on findings that the face of the instrument did not show clearly whether the agent signed in a representative capacity. The courts admitted parol evidence to resolve the dispute. The Alabama Supreme Court elaborated on this view in *Wurzburg Bros. Inc. v. Coleman*.33 The opinion noted that the Code34 allows parol evidence to re-

28. *Id.* at 595.
29. *Id.*
30. *Id.* at 596.
31. *Id.*
33. 404 So. 2d 334 (Ala. 1981). Defendant was president of Coleman American Moving Services, Inc. Plaintiff sold supplies to Coleman American on an open account.
solve a dispute between initial parties to the instrument if there is a
partially disclosed principal, or if the instrument names the person
represented, but does not indicate the agent signed in a representative
capacity. The *Wurzburg Bros. Inc.* court next found it could look be-
yond the signature on the instrument to determine representative ca-
pacity, but noted that defendant had the burden of proof to establish
he was not liable. The opinion emphasized the policy of promoting
certainty and predictability in the law of negotiable instruments. Holders of instruments “should be able ‘to tell at a glance whose obli-
gation they hold’.”

In their debates about the Uniform Commercial Code, the New York Law Revision Commission devoted surprisingly little attention to
the policies behind U.C.C. section 3-403. The dearth of discussion
may have resulted from the similarity between the New York Negotia-
ble Instruments Law then in effect and U.C.C. section 3-403. The
Coleman American paid with checks that the bank dishonored. Plaintiff's credit man-
ager feared Coleman American would become insolvent. He therefore had defendant
sign a note to secure the debt. The note provided: “Coleman American Moving Ser-
services, Inc. promises to pay . . . $44,419.68.” The note was signed “James H. Cole-
man” and did not indicate that Coleman signed in a representative capacity. The Ala-
abama Supreme Court admitted parole evidence and found defendant personally liable
on the instrument. *Id.* at 335-37.

34. U.C.C. § 3-403(2) provides “except as otherwise established . . .,” implying
that parol evidence is admissible in the situations described.

35. *Wurzburg Bros., Inc.*, 404 So. 2d at 336. A person acts for a partially dis-
closed principal if he acknowledges the representative capacity of his signature but he
does not identify the persons he represents. *RESTATEMENT (SECOND) OF AGENCY* § 4
(1958), [hereinafter cited as *RESTATEMENT*].


37. *Id.* The court recognized opposing authority. *See, e.g.* St. Regis Paper Co. v.

38. *Wurzburg Bros., Inc.*, 404 So. 2d at 336 (citing Byrd Co. v. Tolbert, 286 Ala. 465, 241 So. 2d 840 (1971)); Fanning v. Hembree Oil Co., 245 Ark. 825, 434 S.W.2d 822 (1968). Defendant failed to meet this burden; the court placed little
weight on his self serving statements because another court had recently convicted him
of securities fraud. *Wurzburg Bros., Inc.*, 404 So. 2d at 337.


40. *Wurzburg Bros., Inc.*, 404 So. 2d at 336, quoting *J. WHITE & R. SUMMERS*,
*supra* note 2, at 489.

41. *See generally LAW REVISION COMMISSION REPORTS, supra* note 19.

42. Section 38 of the New York Negotiable Instrument Law (1877) was adopted
from section 19 of the Uniform Negotiable Instruments Law (1896). 1 LAW REVISION
COMMISSION REPORTS, *supra* note 19 at 223 (1955). This section provided: “Signature
Law Revision Commission noted that both the U.C.C. and the Negotiable Instruments Law imposed a potentially severe burden on an agent who intended to act on behalf of another.\textsuperscript{43} The Commission concluded, however, that "[t]he requirements of certainty and definiteness of commercial paper are thought to call for this unfortunate's [the agent's] sacrifice if he has not signed in the correct form. That is the rationale of the harsh rule, as described in Comment 3 to Section 3-403."\textsuperscript{44} The Commissioners observed that New York followed the minority rule which admitted parol evidence in a suit between initial parties but refused to admit it as a defense to suit by a holder in due course.\textsuperscript{45} The Commission concluded that adoption of the U.C.C. would change this practice.\textsuperscript{46} The Code, however, may achieve a similar result in a less direct manner because an obligor may assert personal defenses, including failure of consideration,\textsuperscript{47} against anyone other than a holder in due course.\textsuperscript{48}

In \textit{Havatampa Corp. v. Walton Drug Co., Inc.},\textsuperscript{49} a Florida District Court of Appeals noted that the presumption in favor of agent's personal liability promotes certainty and predictability in negotiable in-

\begin{itemize}
\item[43.] \textit{Id.} at 225.
\item[44.] \textit{Id.}
\item[45.] \textit{Id.} at 226-27.
\item[46.] \textit{Id.} at 227.
\item[47.] U.C.C. § 3-408.
\item[48.] U.C.C. § 3-305. The Commission recognized policies supporting the minority rule and the U.C.C.:
\begin{itemize}
\item A holder in due course should not be required to inquire what was meant by that form of signature [words of agency alone]. Such inquiry would slow up the ready transfer of negotiable instruments as a substitute for money. Hence the agent should not be allowed as against a holder in due course to show by parol evidence that he did not intend to bind himself personally. But as against a plaintiff who is the payee and who has dealt directly with the agent, it does not seem to make sense to say that the agent will not be permitted to show that such payee plaintiff knew that the agent did not intend to be bound personally, for the payee could not have been misled by such form of signature.
\end{itemize}
\item[49.] 354 So. 2d 1235 (Fla. Dist. Ct. App. 1978). Defendants executed a note stating "We promise to pay . . . ," and signed

citation

\url{https://nsuworks.nova.edu/nlr/vol9/iss1/3}
International Negotiable Instruments. 50 Imposing a burden on the agent to reveal his representative capacity and to identify his principal makes negotiable instruments easier to understand by their purchasers and thereby enhances negotiability. 51 The court refused to dismiss suit against the agent because there was an ambiguity on the face of the promissory note the agent signed.

2. Authority for Signature

An agent generally will be liable on a negotiable instrument if he signs in his principal's behalf but without the principal's authority. 52 The Official Comment elaborates: "'Unauthorized signature' . . . includes both a forgery and a signature made by an agent exceeding his actual or apparent authority." 53 In hearings in which it decided to adopt the U.C.C. for the District of Columbia, the District of Columbia Committee in the House of Representatives noted that the Code was not an abrupt change from existing law; it merely settled several questions as it codified current commercial law concepts. 54 Principles of law and equity, including the law of principal and agent, supplement

Walton Drug Co., Inc. d/b/a Touchton
Drugs ___________________ and/or ____________________
(seal) (seal)

Bob Edrington, Owner

_________________________ Bob Edrington, President.
(seal)

The court refused to dismiss the suit because reasonable people could differ over whether the parties intended the agent to be bound. The opinion noted that the word "President" after Edrington's signature may have been used either to identify the signer or to show representative capacity. Id. at 1236-37.

50. Id. at 1237.
51. Id.
52. See U.C.C. § 3-404(1), which provides:
Any unauthorized signature is wholly inoperative as that of the person whose name is signed unless he ratifies it or is precluded from denying it; but it operates as the signature of the unauthorized signer in favor of any person who in good faith pays the instrument or takes it for value.
An exhaustive study of agency law is beyond the scope of this note. The author presents the following discussion as an overview to applicable law and practice.
53. U.C.C. § 3-404 official comment 1.
the Code except when these principles are clearly inconsistent with the Code's provisions.\textsuperscript{55} This is fortunate; article 3 does not delineate the possible sources of an agent's authority to bind his principal. The official Comment to section 3-403 provides some insight but does not clarify adequately the possible sources of authority.\textsuperscript{56} The Code directs the practitioner to other legal sources, particularly the common law, for interpretation of agent's authority.\textsuperscript{57}

The second Restatement of Agency recognizes five sources of an agent's power to bind his principal: express authority,\textsuperscript{58} implied authority,\textsuperscript{59} apparent authority,\textsuperscript{60} inherent power,\textsuperscript{61} and ratification.\textsuperscript{62}

\begin{itemize}
\item \textbf{a. Express Authority}

Express authority is easy to recognize and, if written, is easy to prove.\textsuperscript{63} The essential requirement is a communication by the principal to the agent indicating that the agent may act on the principal's behalf.\textsuperscript{64} Courts will only consider the statement by the principal; the principal's unexpressed intent is irrelevant.\textsuperscript{65} An agent who relies on an express conferral of authority by the principal and who signs according to the form provided in U.C.C. section 3-403 will bind the principal but will not obligate himself on the instrument.\textsuperscript{66}

\item \textbf{b. Implied Authority}

The Restatement of Agency defines implied authority as actual

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\textsuperscript{55.} U.C.C. § 1-103.
\textsuperscript{56.} The power to sign for another may be an express authority, or it may be implied in law or in fact, or it may rest merely upon apparent authority. It may be established as in other cases of representation, and when relevant parol evidence is admissible to prove it or deny it.
\textsuperscript{57.} See U.C.C. § 1-403.
\textsuperscript{58.} RESTATEMENT § 7.
\textsuperscript{59.} \textit{Id.} at § 35.
\textsuperscript{60.} \textit{Id.} at §§ 8, 159.
\textsuperscript{61.} \textit{Id.} at § 8A.
\textsuperscript{62.} \textit{Id.} at § 82; U.C.C. § 3-404 official comment 3.
\textsuperscript{63.} See generally RESTATEMENT § 7 at 28-29, § 26 at 100.
\textsuperscript{64.} \textit{Id.}
\textsuperscript{65.} \textit{Id.} § 26 at 100.
\textsuperscript{66.} \textit{Id.} §§ 320, 324.
\end{flushleft}
authority to perform acts that are incidental to the purpose of the agency. Communications between principal and agent determine applicability of both express and implied authority. An agent should be loath to rely on implied authority in the absence of such factors as business emergencies or a principal's statements to third parties by which the principal recognizes the agent's authority to act. The Restatement clarifies the scope of implied authority. Unless otherwise agreed, authority to manage a business includes authority to make incidental or reasonably necessary contracts, to buy necessary equipment and supplies, to make necessary repairs, to employ or discharge employees as reasonably necessary, to sell products in accordance with business purposes, to receive payment on the principal's behalf, and to pay business debts.

c. Apparent Authority

A principal's statement to a third party that his agent has authority to act will confer apparent authority on the agent and will empower the agent to bind the principal, even if the principal privately ordered the agent not to act. Courts limit the scope of apparent authority by requiring the third party's reliance to be reasonable. In Taillie v.

67. "Unless otherwise agreed, authority to conduct a transaction includes authority to do acts which are incidental to it, usually accompany it, or are reasonably necessary to accomplish it." Id. § 35.


69. RESTATEMENT § 47 recognizes the agent's authority to do whatever he reasonably believes necessary to prevent a substantial loss to his principal in an unforeseen situation. The unforeseen situation and reasonable belief as to what is necessary may be difficult to establish. Courts, therefore, have considered relatively few cases in which agents relied on implied or emergency authority.

70. See "apparent authority," infra notes 72-80 and accompanying text.

71. RESTATEMENT § 73.

72. Id. § 8 and comment a; § 160.

73. In Stephens v. Yamaha Motor Co., Ltd., 627 P.2d 439 (Okla. 1981), the Supreme Court of Oklahoma held that plaintiff was not entitled to rely on the appearance of an agency relation. Id. at 442. The Stephens plaintiff had the defendant repair a motorcycle tire because plaintiff believed defendant was affiliated with Conoco. The only reason for believing there was a connection between defendant's service station and Conoco was the small Conoco sign defendant displayed. When his tire deflated, plaintiff sued defendant's service station and Conoco, Inc., arguing that defendant had apparent authority to bind Conoco to express and implied warranties. Id. at 440. The Oklahoma Supreme Court affirmed summary judgment for Conoco as it noted, "Ap-
Chedester\textsuperscript{74} the Tennessee Court of Appeals based a finding of apparent authority on a course of dealing. The unanimous opinion found that plaintiffs were entitled to rely on apparent authority of Chedester's fiancee' because of her supervision of construction and the course of changes she ordered.\textsuperscript{75}

Similarly, the Texas Court of Civil Appeals found apparent authority in a course of dealing in \textit{Southline Equipment Co. v. National Marine Service, Inc.},\textsuperscript{76} but noted that estoppel is the basis for apparent authority exists only to the extent that it is reasonable for the third person dealing with the agent to believe that the agent is authorized. \textit{Id.} at 441 (quoting \textsc{Restatement} \textsection 8 comment c. The court quoted \textit{Rosser-Moon Furniture Co. v. Oklahoma State Bank}, 192 Okla. 169, 135 P.2d 336 (1943)):

"Apparent authority" of an agent is such authority as the principal knowingly permits the agent to assume or which he holds the agent out as possessing. And the elements that must be present before a third person can hold the principal for the acts of the agent on the theory of apparent authority are (a) conduct of the principal, (b) reliance thereon by the third person, and (c) change of position by the third person to his detriment.

\textit{Stephens}, 627 P.2d at 441.

74. 600 S.W.2d 732 (Tenn. App. 1980). Chedester entered an agreement with a general contractor to build his home. Chedester's fiancee watched the work and proposed changes in plans. The contractor considered her Chedester's agent, and made all changes she proposed. When she asked to change cabinets, the contractor introduced her to plaintiffs, who were cabinet makers. She agreed to proposed plans and cost. When Chedester did not pay for the change, plaintiffs sued Chedester and the general contractor. The court rejected Chedester's argument that he had never authorized his fiancee to act on his behalf. \textit{Id.} at 733-35.

75. \textit{Id.} at 735. The court quoted 3 \textsc{Am. Jur. 2d} Agency \textsection 73 (1962):

[S]o far as concerns a third person dealing with an agent, the agency's "scope of authority" includes not only the actual authorization conferred upon the agent by the principal, but also that which has apparently been delegated to him. Apparent authority, or ostensible authority, as it is also called, is that which, though not actually granted, the principal knowingly permits the agent to exercise, or which he holds him out as possessing. In effect, therefore, an agent's apparent authority is, as to third persons dealing in good faith with the subject of his agency and entitled to rely upon such appearance, his real authority, and it may apply to a single transaction, or to a series of transactions.

600 S.W.2d at 734-35.

76. 598 S.W.2d 340 (Tex. Civ. App. 1980). National sued Southline for amounts due for repair of Southline's forklift. Southline claimed its employees, Whitey and Plaunty, did not have authority to enter in a contract for Southline. Plaunty previously placed orders; Plaunty and Whitey were present while plaintiff worked on the forklift, with their employer's implicit approval. \textit{Id.} at 341-42.
authority. Apparent authority\textsuperscript{77} exists if the principal causes a reasonably prudent person to believe the agent has authority to act.\textsuperscript{78} The court agreed with defendant that only manifestations by the principal are relevant; an agent may not create apparent authority by his own words or conduct.\textsuperscript{79} In this case, however, the court found sufficient evidence of manifestations by the principal to invoke apparent authority.\textsuperscript{80}

d. Inherent Agency Power

Drafters of the Restatement attempted to find a theoretical justification for judicial decisions imposing liability on the principal for acts of the agent when the principal had conferred neither actual nor apparent authority.\textsuperscript{81} Section 8A of the Restatement adopts the term inherent agency power which refers to "the power of an agent which is derived not from authority, apparent authority or estoppel, but solely from the agency relation and exists for the protection of persons harmed by or dealing with a servant or other agent."\textsuperscript{82}

Neither the U.C.C. nor the official comments mentions inherent power as a basis for freeing an unauthorized agent from liability under section 3-404. It also appears that no appellate tribunal has directly addressed the issue. The Code indicates, however, that courts should follow a traditional analysis of the law of principal and agent as they evaluate the scope of an agent's authority.\textsuperscript{83} In \textit{Musulin v. Woodtek, Inc.},\textsuperscript{84} the Oregon Supreme Court suggested that inherent power, de-

\begin{itemize}
\item \textsuperscript{77} Id. at 343.
\item \textsuperscript{78} Id. at 343, citing Chastain v. Cooper & Reed, 152 Tex. 322, 257 S.W.3d 433 (1953).
\item \textsuperscript{79} Id. at 343 (citing Bugh v. Word, 424 S.W.2d 274 (Tex. Civ. App. 1968)).
\item \textsuperscript{80} Id. at 343.
\item \textsuperscript{81} See, e.g., Butler v. Maples, 76 U.S. 766 (1869).
\item \textsuperscript{82} RESTATEMENT § 8A.
\item \textsuperscript{83} U.C.C. § 3-403(1) recognizes that the agent's authority may be established as in other cases of representation.
\item \textsuperscript{84} 491 P.2d 1173 (Or. 1971). Charles Benert, Woodtek's general manager and vice president, signed an $80,000 promissory note on behalf of Woodtek. Id. at 1174. Woodtek defended subsequent suit on the grounds of lack of consideration and lack of actual or apparent authority for Benert to obligate the corporation. The court cited a pre-U.C.C. case, \textit{DuBois Matlack Lumber Co. v. Davis Lumber Co.}, 149 Or. 571, 573, 42 P.2d 152, 154 (1935), for the proposition that neither the president nor the vice president has inherent power to obligate a corporation on a negotiable instrument. See also Capital Bank v. American Eyewear, Inc., 597 S.W.2d 17 (Tex. Civ. App. 1980),
\end{itemize}
fined in the case as "power flowing from the nature of the office," may be relevant only if no other source of authority is available. A mere vice president or president may not have inherent power to bind a corporation. If the corporate officer signs an instrument without actual or apparent authority he will bind himself and the court will require a high threshold of proof to establish inherent power.

Courts are most likely to invoke inherent power to obligate the principal of a general agent. A general agent may have power to bind his principal in transactions that usually accompany, or that are incidental to, work he is authorized to perform if the third party reasonably believes the agent is authorized to act.

e. Ratification

The U.C.C. provides that a principal may ratify the unauthorized signature of his agent if the agent purported to sign in his behalf. The Official Comment recognizes that ratification is retroactive, and that it may relieve an unauthorized agent from personal liability on the instrument. An unauthorized signer, however, may be liable to the principal even after ratification. A court may find ratification in express statements by the principal or in the principal's retention of benefits after he learns of the unauthorized signature. The Restatement would place a heavy burden on a principal. Section 43 finds ratification in a principal's acquiescence in an unauthorized act. Section 94 suggests that failure to take active measures to repudiate an unauthorized act may

in which the court held that a bank president did not have actual or apparent authority or inherent power to sign a lease on the bank's behalf. The Musulin court did not address the issue of agent's liability as it affirmed judgment for plaintiff.

85. Musulin, 491 P.2d at 1177.
88. U.C.C. § 3-404(2).
89. U.C.C. § 3-404(2) official comment 3: "[T]he word 'ratified' is used in order to make it clear that the adoption is retroactive... [t]he ratification relieves the actual signer from liability on the signature."
90. U.C.C. § 3-404(2) and official comment 3.
91. U.C.C. § 3-404 official comment 3.
92. RESTATEMENT § 43.
f. Termination of Authority

An agent acting within the apparent scope of authority may find himself personally obligated under U.C.C. section 3-404(1) if the agency relation terminates before he signs an instrument on behalf of his principal. This result protects innocent principals and third parties and it places a substantial burden on the agent to verify his status before each representative act. The Restatement enumerates established grounds for termination of the agency relation. Actual authority ends at the time specified in the agent’s contract with the principal. If the original agreement does not provide for duration of authority, the relation will cease when the agent accomplishes the authorized act or when specified events occur. In most cases a principal may unilaterally terminate an agent’s employment or an agent may expressly or implicitly renounce the relation. However, a party who wrongfully terminates the relation may be liable in damages for breach of contract or for other grounds. Actual authority will also end if either principal or agent loses capacity to contract.

The Supreme Court of Arizona followed the majority rule in *Mubi v. Broomfield* as it held that death of the principal instantaneously

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93. Restatement § 94 official comment a (limiting the broad ramifications of this rule). The drafters would leave broad discretion to the factfinder by basing the test for ratification on whether the principal failed to object when "according to the ordinary experience and habits of men, one would naturally be expected to speak if he did not consent." *Id.*
94. See Restatement §§ 105-39.
95. See supra text accompanying notes 63-66.
96. Restatement § 106.
97. *Id.* § 107.
98. *Id.* § 118.
99. *Id.* § 122.
100. 108 Ariz. 39, 492 P.2d 700 (1972). Petitioner's decedent sued Walter and Jane Doe Tribble for injuries he suffered in a car accident. On August 5, 1970, defendants filed an offer of judgment. Rule 68 of the Arizona Rules of Civil Procedure required any offer to be accepted in writing within ten days or it would be deemed withdrawn. Before he died on August 11, 1970, petitioner's decedent told his wife to accept the offer. She immediately instructed their attorney to accept the proposal but he did not file the required acceptance until after decedent's death. *Id.* at 40-41, 492.
ends agency authority by operation of law. The court considered whether the attorney had authority after his client's death to carry out instructions made before death. In holding that the acceptance was not valid, the unanimous opinion noted, "where there is only a naked authority, not coupled with an interest, the death of the principal without notice ends the agent's authority to act in his principal's behalf."

This decision is noteworthy for two reasons. First, it does not require any notice to the agent before his authority is terminated. Second, it does not apply to a power coupled with an interest. The court observed, however, that courts sometimes make an exception to protect innocent third parties who deal with an agent in good faith and without knowledge of the principal's death.

The Supreme Court of Washington considered requirements for termination of apparent authority in Lazov v. Black. The court noted the general rule protecting third parties from revocation of an agent's authority without notice, by stating that "generally, termination by a principal of an agency relationship is not effective as to the agent and third parties who have previously dealt with the agent in that capacity until notice of the termination of the relationship is conveyed to them." The court found the general rule inapplicable in this case because statutes required filing of a revocation of power of attorney and provided that filing was constructive notice to third parties.

Mubi and Lazov indicate that an agent's authority may terminate immediately upon the death or incapacity of the principal—even without notice to the agent or third party. An agent or third party, however, may continue to rely on an agent’s appearance of authority after

P.2d at 701-702.

101. Id. at 41, 492 P.2d at 702.

102. Id.

103. See infra text accompanying notes 110-114.


105. 88 Wash. 2d 883, 567 P.2d 233 (1977). Spridon Lazov executed and recorded a general power of attorney naming his wife attorney in fact. He left the state and his wife purchased a home in their names from appellants. Mrs. Lazov then conveyed her husband's interest to Mr. and Mrs. Boyce. Mr. Lazov returned to the state, filed suit for divorce, and told his wife he intended to revoke the power of attorney. He accepted a quitclaim deed from Mr. and Mrs. Boyce and filed a revocation of the power of attorney. The wife then conveyed their interest in the property to appellants. The husband sued and the trial court declared the deed void. Id. at 884-85, 567 P.2d at 234.

106. Id. at 886, 567 P.2d at 234.

107. Id. at 885-6, 567 P.2d at 234-5.
they have dealt together and until they receive notice that the principal has revoked the agent's authority. The *Mubi* court reconciled this apparent inconsistency; the agent's authority is derivative—if the principal does not have capacity to contract the agent can have no power to contract on his behalf.\textsuperscript{108} However, an agent claiming that his apparent authority remains does not assert a greater capacity than his principal enjoys; he merely asserts that he retains a power he once possessed. The *Mubi* opinion suggests, furthermore, that an agent whose power is coupled with an interest in the transaction may retain authority even after the principal's death or attempted revocation.\textsuperscript{109}

The Arizona Supreme Court clarified the doctrine of power coupled with an interest in *Phoenix Title and Trust Co. v. Grimes*.\textsuperscript{110} The trial court entered summary judgment for defendants and the Supreme Court reversed, holding that agency power to sell the land passed to the agent's estate because the agent had a power coupled with an economic interest in the underlying transactions.\textsuperscript{111} The court limited this rule by noting that personal service contracts may not be assignable if they can only be performed by the initial person employed.\textsuperscript{112} The unanimous opinion found that the agent's power in this case:

was a power coupled with an interest, and is irrevocable. It is of course the general rule that the death of either principal or agent terminates the relationship. However, the exception to the rule is that if the agency or power of the agent is coupled with an interest in the subject matter of the agency, the power so coupled will survive to the personal representative of the agent upon the death of the agent.\textsuperscript{113}

The court found that the decedent's rights survived his death\textsuperscript{114} be-

\textsuperscript{108} *Mubi*, 108 Ariz. at 41-42, 492 P.2d at 702-3.

\textsuperscript{109} See *supra* text accompanying note 102.

\textsuperscript{110} 101 Ariz. 182, 416 P.2d at 979 (1966). Plaintiff's decedent was a coventurer in a land development plan. He owned an undivided 7/24 interest in the property, and the other investors signed a contract giving him the exclusive right to subdivide, advertise, develop, and sell the land for a commission; the agreement explicitly provided that this right would pass to decedent's heirs or assigns. Defendants refused to permit the executor to continue performing the contract. *Id.*

\textsuperscript{111} *Id.* at 184-85, 416 P.2d at 981-82.

\textsuperscript{112} *Id.* at 185, 416 P.2d at 982.

\textsuperscript{113} *Id.* at 184-85, 416 P.2d at 981-82 (citing *Commercial Nursery Co. v. Ivey*, 164 Tenn. 502, 51 S.W.2d 238 (1932)).

\textsuperscript{114} See also Matter of Estate of Gray, 541 P.2d 336 (Colo. App. 1975), in
cause the decedent was a conventurer with an economic interest in addition to his interest in the exercise of the power to manage the property.

C. Summation

An attorney advising an agent should recommend that the agent have a written statement establishing the scope of authority because the agent’s subsequent attempt to prove implied authority or inherent power may be especially difficult. If an agent acts pursuant to written authorization, particularly a power of attorney, he should follow its terms strictly. The agent should show on the instrument both his representative capacity and the identity of his principal. An attorney determining who is liable on a negotiable instrument must consider several questions. Did the agent name the principal? Did the agent properly acknowledge his representative capacity? Did the agent have authority to bind the principal? If the agent did not have authority to bind the principal, then did the principal ratify his agent’s conduct?

These questions are essential to determination of liability not only on negotiable instruments in the United States, but also on countries that adopted the English Bills of Exchange Act\textsuperscript{115} and the Geneva Conventions on negotiable instruments.\textsuperscript{116}

III. England

A. Negotiable Instruments

The English law of negotiable instruments is based on the Bills of Exchange Act and the Cheques Act.\textsuperscript{117} The Bills of Exchange Act was the basis for the United States Uniform Negotiable Instruments Law

\begin{itemize}
\item \textsuperscript{115} See supra note 3 and accompanying text.
\item \textsuperscript{116} See supra note 4 and accompanying text.
\item \textsuperscript{117} Section 1 of the Cheques Act protects bankers who pay cheques in good faith, without negligence, and in the ordinary course of business; Sections 2 and 4 protect bankers who participate in the cheque collection process. Section 5 of the Cheques Act adopts Bills of Exchange provisions for crossed cheques. Further discussion of the Cheques Act is beyond the scope of this note.
\end{itemize}
and influenced the evolution of the Uniform Commercial Code.\textsuperscript{118} Negotiable instruments may be transferred as readily under the Bills of Exchange Act as under the Uniform Commercial Code. If a holder takes a negotiable bill of exchange in good faith, for value, and without notice of any defect in title, he becomes a holder in due course\textsuperscript{119} and will hold the bill free from any personal defenses or defect of title.\textsuperscript{120} The United States practitioner should feel reasonably comfortable when planning commercial transactions in any of the countries that adopted the English Bills of Exchange Act. The Bills of Exchange Act generally has the same effect as the Uniform Commercial Code. The following discussion addresses provisions under the Bills of Exchange Act that differ from commercial law in the United States.

The statute defines a negotiable bill of exchange:

A bill of exchange is an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time a sum certain in money to or to the order of a specified person, or to bearer.\textsuperscript{121}

A drawer may write a bill of exchange on anything that is not metal.\textsuperscript{122} A bill of exchange must be payable to order or to bearer.\textsuperscript{123} The Act construes a bill payable to a particular person as payable to that person's order unless the face of the instrument prohibits transfer.\textsuperscript{124} No one is liable on a bill of exchange unless his signature appears;\textsuperscript{125} but a

\begin{enumerate}
\item \textsuperscript{118} M. Megrah & F. Ryder, \textit{Byles on Bills of Exchange} 3 (23d ed. 1972) [hereinafter cited as \textit{Byles on Bills of Exchange}].
\item \textsuperscript{119} Bills of Exchange Act § 29.
\item \textsuperscript{120} Id. § 38(2).
\item \textsuperscript{121} Id. § 3(1).
\item \textsuperscript{122} \textit{Byles on Bills of Exchange}, supra note 118, at 8. The Coinage Act, 1870, 33 & 34 Vict., ch. 10, \textit{reprinted in} 6 \textit{Halsbury's Statutes of England} 836 (3d ed. 1968) [hereinafter cited as Coinage Act], forbids issuance of any metal as "a token for money, or as purporting that the holder thereof is entitled to demand any value denoted thereon." Coinage Act. § 5.
\item \textsuperscript{123} Id. § 8(2).
\item \textsuperscript{124} Id. § 8(4). Compare United States practice requiring use of words "order" or "bearer." U.C.C. § 3-104(1)(d) and official comment 5 require the use of prescribed language or a clear equivalent, and provide that in doubtful cases courts should hold against negotiability. A statement "pay John Doe" would, therefore, be negotiable in England but not in the United States.
\item \textsuperscript{125} Bills of Exchange Act § 23. Compare United States under U.C.C. § 3-401(2), providing that a person may sign a trade or assumed name.
\end{enumerate}
person may be personally liable if he signs a trade or assumed name.\textsuperscript{126} The signature of a partnership's name acts as the personal signature of every partner.\textsuperscript{127} The drawer of indorser may add a statement such as "without recourse to me" or "sans recours" to eliminate or limit his liability on the instrument.\textsuperscript{128}

A check is a bill of exchange drawn on a bank.\textsuperscript{129} The Bills of Exchange Act permits the drawer to "cross" the check and thereby eliminate negotiability.\textsuperscript{128} Section 83(1) defines "promissory note" as "an unconditional promise in writing made by one person to another signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person or to bearer." The maker of a note contracts to pay it according to its tenor\textsuperscript{131} and is subject to the same liability as in United States practice.\textsuperscript{132}

The Court of Appeals clarified requirements for checks and bills of exchange and illustrated a difference from United States law\textsuperscript{133} in \textit{Orbit Mining & Trading Co., Ltd. v. Westminster Bank, Ltd.}\textsuperscript{134} In hold-

\begin{itemize}
\item \textsuperscript{126} Bills of Exchange Act § 23(1).
\item \textsuperscript{127} Id. § 23(2).
\item \textsuperscript{128} Id. § 16(1). Compare United States practice permitting a drawer or indorser to sign "without recourse" to eliminate personal liability. U.C.C. §§ 3-413, 3-414. Under the U.C.C. a transfer without recourse does not eliminate all warranty liability; the transferor then only warrants he has no knowledge of a valid defense against him. U.C.C. § 3-417(3).
\item \textsuperscript{129} Bills of Exchange Act § 73. Lord Chorley defines "cheque" as follows: A cheque is an unconditional order in writing drawn by one person upon another, who must be a banker, signed by the drawer, requiring the banker to pay on demand, or at sight, or on presentation or expressing no time for payment, a sum certain in money to or to the order of a specified person or to bearer.
\item \textsuperscript{130} A check bearing two parallel transverse lines across its face is "crossed," and is not negotiable. Bills of Exchange Act §§ 76-81.
\item \textsuperscript{131} Id. § 88.
\item \textsuperscript{132} U.C.C. §§ 3-413(1), 3-413(3).
\item \textsuperscript{133} U.C.C. § 3-111 provides that an instrument will be deemed payable to bearer if it indicates it is payable to "(a) bearer or the order of bearer; or (b) a specified persons or bearer; or (c) 'cash', or any other indication which does not purport to designate a specific payee." Id. The Bills of Exchange Act does not have a comparable provision. The present court considered whether checks payable to cash could be negotiable.
\item \textsuperscript{134} [1962] 3 All E.R. 565 (C.A.). Epstein was a secretary and a director of Orbit Mining Company and was authorized to cosign checks with the other director,
\end{itemize}
ing for the bank, the court found that the instruments were not checks\(^{138}\) and that section 4(1)(a) of the Cheques Act protected the bank from liability since the bank was not negligent in paying.\(^{138}\) The court noted that the Cheques Act is to be interpreted in conjunction with the Bills of Exchange Act.\(^{137}\) The Bills of Exchange Act defines a check as “a bill of exchange drawn on a banker payable on demand.”\(^{138}\) A bill of exchange must be payable to a particular person, to order, or to bearer.\(^{139}\) Because the instruments were payable to cash rather than to order, bearer, or a particular person, they were not bills of exchange and could not be cheques.\(^{140}\) The court noted that section 7(3) of the Bills of Exchange Act provides that “[w]here the payee is a fictitious or non-existing person the bill may be treated as payable to bearer.”\(^{141}\) The opinion construed this provision strictly, finding that “cash” was not a person so the Bills of Exchange Act was inapplicable.\(^{142}\) Although the instrument was not a check under section 4(2)(a), it was a document under section 4(2)(b).\(^{143}\) The court found that the bank was not negligent in paying because there was nothing on the face of the instrument to place the bank on notice of a defect.\(^{144}\)

B. Signature by Agent

Over one hundred and fifty years ago Chancellor Erskine wrote, “[n]o rule of law is better ascertained, or stands upon a stronger foundation, than this; that, where an agent names his principal, the princi-
pal is responsible: not the agent: but, for the application of that rule, the agent must name his principal as the person to be responsible. 146 Contemporary practice still follows this principle.

1. Form of Signature

The Bills of Exchange Act states how an agent must sign a negotiable instrument to escape personal liability:

(1) Where a person signs a bill as drawer, indorser, or acceptor, and adds words to his signature, indicating that he signs for or on behalf of a principal, or in a representative character, he is not personally liable thereon; but the mere addition to his signature of words describing him as an agent, or as filling a representative character, does not exempt him from personal liability.

(2) In determining whether a signature on a bill is that of the principal or that of the agent by whose hand it is written, the construction most favorable to the validity of the instrument shall be adopted. 148

Parliament redrafted this section in committee, and may have liberalized the strict common law presumption that the agent always was personally liable. 147 Courts even today find such terms as “agent” or “manager” following a signature as mere designatio personae. 148

The form of signature is especially important in England. 149 A person who indicates on the instrument that he signs on behalf of another and who identifies the claimed principal with reasonable certainty generally will not be liable on the instrument, even if he signs without


It is not a universal rule that a man who puts his name to a bill of exchange thereby makes himself personally liable, unless he states upon the face of the bill that he subscribes it for another, or by procuration for another, which are words of exclusion? Unless he says plainly “I am the scribe” he is liable.

Id.

148. Chalmers on Bills of Exchange, supra note 147, at 80.
149. Compare U.C.C. § 3-404(1), which provides that a person who signs in the proper form but without authority is personally liable for the instrument.
authority. In deciding whether a signature binds the signer or his principal, a court will adopt the interpretation most favorable to the instrument’s validity. The Court of Appeals in *Ernest Scragg & Sons, Ltd. v. Perseverance Banking & Trust Co., Ltd.* demonstrated the results of failing to disclose the principal on the face of the instrument. The Defendant claimed the plaintiff had actual knowledge that the plaintiff was acting on behalf of Isranyl, but the court refused to look beyond the face of the instrument as it found defendant liable for conversion. The court noted, “English law will attribute to a document its face value if the document is, or is in the nature of, a negotiable instrument. . .or if it is what is sometimes called a quasi-negotiable instrument (as, for example, a bill of lading). . .”

*Maxform S.P.A. v. Mariani & Goodville Ltd.* demonstrated the interrelationship between the Bills of Exchange Act and the Companies Act of 1948 and their effect on personal liability of an agent who fails to disclose his principal. Mariani appealed from the decision of the trial court, arguing that he could not be liable as an acceptor under section 17(2) of the Bills of Exchange Act because he was not the drawee, that the only possible source of liability was section 108(4)(b) of the Companies Act, which imposes personal liability on agents of corporations who sign negotiable instruments on behalf of undisclosed principals, and that because the bill of exchange never mentioned

151. Id. § 26(2).
152. [1973] 2 Lloyd’s L.R. 101 (C.A.). Defendant ordered texturing machines from plaintiffs. The order said it was from Perseverance Banking & Trust Co., Ltd., and was signed “for and on behalf of the Perseverance Banking & Trust Co.” Pursuant to agreement, plaintiff shipped the goods to Isranyl Ltd. in Israel. Plaintiff sent a sight draft with invoice and bill of lading to defendant in London. Defendant did not pay or accept the draft, but immediately forwarded the documents to Isranyl Ltd. Plaintiff sued for breach of contract and for conversion of documents. Id. at 102.
153. Id. at 103 (citing Building & Civil Engineering Holidays Scheme Management Ltd. v. Post Office, [1964] 2 Q.B. 430, 445).
154. [1981] 2 Lloyd’s L.R. 54 (C.A.). Italian plaintiff manufactured and sold furniture to Goodville, Ltd., d/b/a/ Italdesign. Plaintiff drew four bills of exchange for the purchase price of 4,969,080 lire; three bills totaling 4,073,680 lire were outstanding at the time of suit. Of all three bills of exchange the drawee was “Italdesign,” the registered trading name for Goodwin, Ltd. The drawer had typed “per accettazione” below the drawee’s name. Mariani signed at the bottom of the bill without any description of his status. Id. at 56.
155. Companies Act, 1948, 11 & 12 Geo. 6 ch. 38, reprinted in 5 HALSBURY’S STATUTES OF ENGLAND 110 (3d ed. 1968) [hereinafter cited as Companies Act].
156. See id.
Goodville Ltd. or Italdesign, Mariani could not have purported to sign on their behalf. The Court of Appeals affirmed judgment for plaintiff as it found that the face of the instrument revealed Mariani signed on behalf of the drawee without disclosing his representative status. The court agreed that Mariani could not be liable as acceptor, but rejected his argument that section 26(1) of the Bills of Exchange Act required the court to look only to the form of signature. The court applied section 26(2), which required the court to give the instrument the construction most favorable to its validity, and which allowed the court to look at the instrument as a whole.

In addition to disclosing the principal, the agent should avoid ambiguities on the instrument. In Rolfe Lubbell v. Keith, the Court accepted plaintiff's argument that the Bills of Exchange Act section 26(2) requires construction most favorable to the validity of the instrument, that because the principal, Grafton, was already required to pay, defendants' signatures purportedly binding the company would be meaningless "mercantile nonsense," and that the court should allow parol evidence to determine the parties' intent because of the ambiguity on the instrument. The court held that the patent ambiguity permitted admission of parol evidence of a course of dealing, and previous requirement by the plaintiff of personal indorsements indicated a mutual intent that the defendant be personally bound. The court noted that the defendants did not argue that the plaintiff waived his right to hold them personally liable by his failure to object to the stamp re-

157. *Id.* at 57.
158. *Id.*
159. *Id.*
160. [1979] 2 Lloyd's L.R. 75 (Q.B.). Plaintiff supplied cloth to the manufacturing firm Grafton Manquest Ltd. Grafton was delinquent in paying bills of over £9000. Plaintiff drew three bills of exchange payable by Grafton to Rolfe Lubbell, and presented them to Grafton for acceptance. After Grafton accepted the bills, Grafton's managing director, Keith, and company secretary, Greenwood, indorsed the bill in appropriate boxes labeled "managing director" and "company secretary," and immediately after their signatures stamped "for and on behalf of Grafton Manquest, Limited." *Id.* at 76-77.
161. *Id.* at 77.
162. *Id.*
163. *Id.*
revealing the representative capacity of the signature.\textsuperscript{165}

Ernest Scrugg, Maxform, and Rolfe Lubbell demonstrate the importance of an unambiguous signature revealing a representative capacity and identifying the principal. A court may refuse to look beyond the face of an instrument to determine whether the parties intended the signer to be personally liable. An agent signing on behalf of a principal should not permit his signature to appear in more than one place on the instrument because a court may construe the second signature as a personal indorsement.

2. Authority for Signature

The Bills of Exchange Act provides that an unauthorized signature generally will be completely inoperative and will not confer any rights on the instrument.\textsuperscript{166} An agent who signs in the proper form, therefore, will not be personally obligated on the instrument even if he signs without authority. English courts achieve results similar to personal liability on the instrument by invoking a theory of breach of warranty of authority.\textsuperscript{167}

English law provides an exception by which agents who sign negotiable instruments on behalf of principals may be liable even if they indicate their representative capacity and identify their principal. A promoter of a corporation who signs on the corporation's behalf before the corporation is formed may be personally liable on the instrument under the European Communities Act of 1972.\textsuperscript{168}

\textsuperscript{165} Rolfe Lubbell, 2 Lloyds L.R. at 78.

\textsuperscript{166} Bills of Exchange Act § 24. Cf. U.C.C. § 3-404(1), providing that an agent who signs without authority of the person he purports to obligate will bind himself.

\textsuperscript{167} See generally F. Reynolds & B. Davenport, Bowstead on Agency 378-86 (14th ed. 1976) and cases cited therein. Analysis of warranty liability arising off the instrument is beyond the scope of this article.

\textsuperscript{168} European Communities Act, 1973 ch. 68, reprinted in 42 Halsbury's Statutes of England 59 (3d ed. 1972) [hereinafter cited as E.E.C. Act of 1972]. Section 9(2) provides:

Where a contract purports to be made by a company, or by a person as agent for a company, at a time when the company has not been formed, then subject to any agreement to the contrary the company shall have the effect as a contract entered into by the person purporting to act for the company or as agent for it, and he shall be personally liable on the contract accordingly.

\textit{Id.}

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In *Phonogram Ltd. v. Lane*, the Court of Appeals applied this statute for the first time to hold a corporate promoter personally liable to repay a loan made to his corporation before its formation. Defendant's corporation was never formed. The plaintiff sued, claiming that the defendant assumed liability by signing the letter acknowledging receipt of the loan, or that the defendant was liable under the EEC Act. In affirming the judgment of the trial court, Lord Denning noted that the word "you" in the letter appeared to refer to the defendant personally, but he deferred to the determination of the trial court. The defendant argued that section 9(2) of the EEC Act of 1972 did not apply. European Economic Community Council Directive 68/151 of March 9, 1968, was the basis for the EEC Act of 1972. Defendant argued that article 7 of the EEC Directive, as written in the original French text, would only impose personal liability on a promoter of a corporation who acted while the corporation was in the process of formation. Defendant could not be liable since he acted on

170. Id. at 186.
171. Musicians employed defendant, Brian Lane, as business agent to obtain financing for their band and Fragile Management, Ltd., the corporation they proposed to form to manage their business. Defendant obtained a commitment from plaintiff, Phonogram, Ltd., for £12,000, payable to Jelly Music Ltd. on behalf of Fragile Management Ltd. (Defendant was a promoter of Fragile Management Ltd. and a director of Jelly Music Ltd. Plaintiff executed the checks in this way for administrative convenience. Plaintiff sent a letter to defendant with the check, in which it explained, "[i]n the unlikely event that we fail to complete within, say, one month you will undertake to repay us the £6000." Plaintiff asked defendant to sign the letter on a line immediately above the statement, "for and on behalf of Fragile Management Ltd." Defendant signed and returned the letter. Id. at 184-85.
172. See supra note 168.
173. Lane, 3 All E.R. at 185.
174. Id. at 186.
176. Lane, 3 All E.R. at 186.
177. Id. English was not an official language of the European Economic Community in 1968. [1981] All E.R. at 186. The EEC Directive provided: If acts are accomplished on behalf of a corporation while being formed but before being incorporated and if the corporation does not take back the obligations resulting from these acts, the people who have performed them will be jointly and indefinitely liable in the absence of a contrary provision.

*Id.*

The French text refers to a corporation "*en formation,*" which implies "while being incorporated." Defendant's argument may fail because the original drafters did not use the stronger terms "*en train d'être formée,*" or "*en train de se former,*" which would
behalf of the corporation before taking any steps to incorporate. The defendant next argued he could not come within section 9(2) of the EEC Act of 1972 because he did not "purport" to act for the company. The defendant disclosed that the company did not yet exist. The Court of Appeals rejected this argument without discussion, noting that "[a] contract can purport to be made on behalf of a company, or by a company, even though that company is known by both parties not to be formed and that it is only about to be formed."

C. Summation

The English Bills of Exchange Act influenced development of the Uniform Commercial Code, and negotiable instruments in England have substantially the same effect as in the United States. An agent sued on an instrument may present the same defenses his principal could assert. A holder in due course takes the instrument free from personal defenses; a person signing a bill of exchange or promissory note may wish to avoid negotiability and the possibility that a holder in due course will sue for payment.

An agent signing a negotiable instrument on behalf of his principal may avoid negotiability by making a bill of exchange payable to cash, crossing a check, or failing to comply with requirements in the Bills of Exchange Act. An agent generally will not be liable on the instrument if he indicates his representative capacity and identifies his principal, even if he exceeds his authority. The promoter of a corporation may, however, be personally liable on an instrument he issues on behalf of his corporation before it is formed.

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refer more closely to the period during which promoters were working to incorporate.

178. Lane, 3 All E.R. at 186.
179. Id.
180. Id. G. CHESHIRE & C.H.S. FIFOOT, LAW OF CONTRACT 462 (9th ed. 1976), discusses Section 9(2) of the EEC Act of 1972:

[T]his provision makes no change in the position of the company, which still cannot ratify the contract. It is clearly intended however to increase the number of cases where the agent is personally liable. How far it in fact does so will depend on the meaning given to the words "subject to any agreement to the contrary" since it could be argued that words showing that A signs as agent express an agreement that he is not to be personally liable.

_id._
IV. Civil Law Practice and the Geneva Convention

A. Overview

The Geneva Conventions\textsuperscript{181} are the basis for negotiable instruments law in much of continental Europe.\textsuperscript{182} Commercial need led to early attempts to unify commercial law. The Association for the Progress of Social Sciences first addressed the matter in a congress in Ghent in 1863.\textsuperscript{183} In 1908 the Dutch government called an international conference at the Hague. In 1912, this conference produced the first draft of a uniform law.\textsuperscript{184} The League of Nations addressed the concern in 1928, after the first World War interrupted efforts to codify a uniform law.\textsuperscript{185} Drafters of the Geneva Conventions learned from the Hague conferences that they could only achieve some degree of unification of laws if they attempted merely to reduce the number of commercial law systems to two—the Anglo-American system and the continental system.\textsuperscript{186} Drafters modeled the form of bills of exchange after German practice and eliminated bills payable to bearer to please the French.\textsuperscript{187} Thirty-one states participated in the Geneva Conference

\begin{itemize}
  \item \textsuperscript{181} Convention Providing a Uniform Law on Bills of Exchange and Promissory Notes, June 7, 1930, 143 L.N.T.S. 259 [hereinafter cited as Bills of Exchange]; Convention Providing a Uniform Law for Cheques, March 19, 1921, 143 L.N.T.S. 355 [hereinafter cited as Cheques Convention].
  \item \textsuperscript{182} The following nations ratified or acceded to all or part of both Conventions. For reservations and dates of ratification or accession, see \textit{United Nations, Multilateral Treaties in Respect of Which the Secretary-General Performs Depository Functions} 581-86 (1978), U.N.Doc. ST/LEG/SER.D/11 (1978). Greece, Denmark, Norway, Sweden, Netherlands, Switzerland, Austria, Belgium, Finland, Italy, Japan, Germany, Portugal, Monaco, France, Poland, Brazil, Hungary and Luxembourg. On February 21, 1974, the Secretary-General of the United Nations received notification that the German Democratic Republic declared reapplication of the Convention beginning June 6, 1958. On January 13, 1976, the Federal Republic of Germany notified the Secretary-General that it would not recognize retroactive application of the Convention in the German Democratic Republic beyond June 21, 1973. \textit{Id.}
  \item \textsuperscript{183} Hamel, \textit{The Geneva Conventions on Negotiable Instruments and Methods of Unifying Private Law}, in \textit{Unification of Law} 270, 275 (1948).
  \item \textsuperscript{184} \textit{Id.}
  \item \textsuperscript{185} \textit{Id.}
  \item \textsuperscript{186} Hudson & Feller, \textit{The Internat'l Unification of Laws Concerning Bills of Exchange}, 44 \textit{Harv. L. Rev.} 333, 347 (1931).
  \item \textsuperscript{187} Hamel, \textit{supra} note 183, at 276-77.
\end{itemize}
May 13, 1930, through June 7, 1930. Participants adopted conventions dealing with uniform law on bills of exchange and promissory notes, conflicts of laws in connection with bills of exchange and promissory notes, and stamp laws in connection with bills of exchange and promissory notes. On March 19, 1931, participants at a second conference adopted three conventions unanimously, proposing a uniform law on checks, conflicts of laws in connection with checks, and stamp laws in connection with checks. The following section will analyze the law of France to illustrate negotiable instruments practice in a civil law jurisdiction that has adopted the Geneva Conventions.

B. Practice in France

1. Negotiable Instruments

The Code de Commerce governs negotiable instruments in France and gives effect to the Geneva Conventions. Assignment of debts generally requires formal notice to the debtor or the debtor’s notarized acceptance. Debts represented by negotiable instruments are more readily transferable and are better suited to commercial needs. Negotiability under French law is much like its Anglo-American equivalent. Unlike United States and English provisions restricting applicability of personal defenses, the French Code de Commerce and the Geneva Conventions do not distinguish between holders and holders in due course. Under the French law any holder in good faith receives a

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189. See League of Nations Doc. C. 346(1). M. 142(1) II (1930).
190. See League of Nations Doc. C. 347(1). M. 143(1) II (1930).
194. CODE CIVIL art. 1690 (Daloz 1981-1982).
195. F. LAWSON, A. ANTON, & L. BROWN, AMOS & WALTON'S INTRODUCTION TO FRENCH LAW 365 (1967) [hereinafter cited as AMOS & WALTON].
negotiable instrument free from defects in title of earlier parties. The French law confers negotiability on a wide variety of instruments, including bonds, bills of lading, bills of exchange, promissory notes, and checks. The Code de Commerce refers to bills of exchange, promissory notes, and checks as effects de commerce, and commercial courts have jurisdiction over all parties to these instruments. The following sections discuss essential characteristics of effects de commerce under the French Commercial Code and the Geneva Conventions.

a. Bills of Exchange

A French bill of exchange has an effect similar to its counterpart in England and to a draft in the United States. It is a signed and dated instrument in writing in which the drawer orders the drawee to pay a sum certain in money to a named payee or his order at a fixed or determinable time. Unlike its United States or English equivalents it may not be payable to bearer and a drawer may prevent its transfer by indorsement by making it payable “non à ordre.” The drawer has the responsibility, enforced by fines and imprisonment, of supplying a “provision” or fund from which the drawee will pay. The holder may not enforce the bill of exchange until the instrument is stamped and the stamp tax paid.

A bill of exchange must contain: the term “bill of exchange” written in the text in the language used in drawing the instrument, an

197. Id. Amos & Walton, supra note 195, at 365.
198. Id.
199. Id.
200. See generally id. at 365-37.
201. C. COM. art. 110; Bills of Exchange Convention art. 2; Amos & Walton, supra note 195, at 365.
202. C. COM. art. 110.
203. Id.
204. See, e.g., Code pénal art. 405 (Daloz 1981-1982) which treats failure to provide funds as a type of fraud.
205. C. COM. art. 116.
206. C. COM. art. 147.
207. The drafters of the Bills of Exchange Convention required the label “bill of exchange” to provide a definite and quick way to distinguish between a bill of exchange and a check or a promissory note, and to insure that the signer realizes he is entering a serious legal obligation. Balogh, Critical Remarks on the Law of Bills of Exchange of the Geneva Convention, 9 Tul. L. Rev. 165, 184 (1935).
unconditional order to pay a sum certain, the name of the payor (drawee), a statement of the time of payment, identification of the place of payment, the name of the person to whom or to whose order payment is to be made, a statement of the date and place where the bill was issued, and the signature of the person issuing the bill (drawer). The signature may be by hand or by any other method. A bill of exchange in which the time of payment is not specified is deemed payable at sight. In the absence of any statement to the contrary, the place designated beside the drawee’s name is deemed the place of payment, and also the domicile of the drawee. A bill of exchange that does not identify the place where it was issued will be deemed to have been drawn in the place mentioned beside the name of the drawer. If the sum payable on a bill of exchange is expressed both in words and in numbers, the sum expressed in words will govern if there is a difference. If the sum payable on a bill of exchange is expressed more than once in words or more than once in numbers, the smaller amount will control if there is a difference.

All drawers, acceptors, indorsers, or guarantors by aval of a bill of exchange are jointly and severally liable to the holder. The holder has the right to proceed against all these people, individually or collectively, without being required to follow the order in which they became bound. Anyone who signs a bill of exchange and pays the holder enjoys the same right the holder possessed. Filing suit, by the holder, against one of the parties, on the instrument does not constitute an

208. Compare Anglo-American practice requiring merely that the payee be identified with reasonable certainty. U.C.C. § 3-110; Bills of Exchange Act § 7.
209. C. com. art. 110. Compare Bills of Exchange Convention art. 1, which does not include the second clause of requirement (8).
210. Id.
211. Domicile is relevant in choice of law questions. See infra notes 417-423 and accompanying text.
212. C. com. art. 110; Bills of Exchange Convention art. 2. Place of issue is relevant in choice of questions. See infra notes 417-423 and accompanying text.
213. C. com. art. 113; Bills of Exchange Convention art. 6.
214. An aval is a guarantee of payment written on the bills or on an allonge. See Bills of Exchange Convention art. 31; C. com. art. 130. A guarantor may create an aval with the signed statement “good as aval” or “bon pour aval,” or any similar provision. Id.
215. C. com. art. 151; Bills of Exchange Convention art. 47.
216. C. com. art. 151; Bills of Exchange Convention art. 47.
217. Id. Compare the doctrine of subrogation in United States practice codified in U.C.C. § 3-415(5).
election of remedies and does not preclude later suit against the others, even if they became obligated on the instrument after the person plaintiff sued first.218

b. Checks

France adopted the Cheques Convention into its Code de Commerce by the Decree of October 30, 1935.219 Provisions related to checks in both the French Code and the Cheques Convention are similar to those dealing with bills of exchange.220 The following discussion addresses significant characteristics of checks and differences between checks and bills of exchange.221

A check is a written instrument by which a drawer orders a bank or a similar financial institution to pay a sum certain on demand to a specified person, his order, or to bearer.222 If a check specifies the payee it may be negotiated by indorsement.223 The drawer may be subject to criminal penalties if he does not provide the drawee adequate funds to cover the check.224

The Cheques Convention and the French Check laws provide stricter formal requirements than the English Bills of Exchange Act or the United States Uniform Commercial Code. A check must contain the term “cheque” in the body of the instrument in the language used in the rest of the instrument, an unconditional order to pay a sum certain in money, the name of the drawee, identification of place of payment, statement of date and place that the check is drawn, and the drawer’s signature.225 The drawee will not be liable on the instrument

218. C. COM. art. 151; Bills of Exchange Convention art. 47.
219. 1935 PERIODIQUE ET CRITIQUE IV 467.
220. See generally AMOS & WALTON, supra note 195, 365-68.
221. The following discussion will not address French use of postal checks. In 1918 the French government attacked a wartime shortage of cash by establishing a check service under direction of the postal administration. AMOS & WALTON, supra, note 195, at 369. Depositors may open accounts at post offices and then draw checks against funds deposited in their names. The Cheque Convention does not address postal checks and postal checks are governed by laws different from those controlling checks drawn on banks. Id. See Decree 62-273, 1962 BULLETIN LEGISLATIF DALLOZ 170 (Mar. 12, 1962).
222. Check Laws art. 1, § 3 Cf. Cheque Convention art. 3, which provides that a check may only be drawn on a banker.
223. Check Laws art. 1, §§ 13, 17; Cheque Convention arts. 14, 17.
224. See, e.g., C. Pén. art. 405.
225. Check Laws art. 1, § 5; Cheque Convention art. 1.
if the drawer fails to deposit adequate funds to pay the check, and the drawee may not accept a check. The Check laws add that a purported acceptance is void (deemed "non écrite"), but the drawee may initial the check to show that the drawer has provided adequate funds to cover the check.

c. Promissory Note

A promissory note contains the clause "to order" or the term "promissory note" written in the text of the instrument in the same language as the rest of the instrument, and the following: an unconditional promise to pay a sum certain, a statement of the time of payment, a statement of the place where payment is to be made, the name of the person to whom or to whose order payment is to be made, a statement of the date and place where the note was issued and the signature of the person who issued the instrument (maker). A promissory note that does not specify the time of payment is payable at sight. In the absence of an explicit indication to the contrary, the place where the instrument is issued is deemed to be the place of payment and the maker's domicile. A promissory note that does not state the place where it was issued is deemed to have been made at the place mentioned beside the name of the maker. The maker of a promissory note is liable in the same way as an acceptor of a bill of exchange.

2. Liability on the Instrument

Both the French Commercial Code and the Geneva Conventions permit limited disclaimers of liability. In the absence of a provision to

226. Check Laws art. 1, § 3.
227. Check Laws art. 1, § 4; Cheque Convention art. 4.
228. Check Laws art. 1, § 4.
229. Cf. Bills of Exchange Convention art. 75, which requires "promissory note" to be written in all cases.
230. Compare Anglo-American practice requiring merely that the payee be identified with reasonable certainty. See, e.g., U.C.C. § 3-110, Bills of Exchange Act § 7.
231. C. com. art. 183; Bills of Exchange Convention.
232. C. com. art. 184; Bills of Exchange Convention.
233. Id. The maker's domicile and the placer of issue are relevant in choice of law determinations. See infra notes 417-23 and accompanying text.
234. Id.
235. C. com. art. 188; Bills of Exchange Convention art. 78.
the contrary the indorser of a bill of exchange guarantees both acceptance and payment.236 He may prohibit any later indorsement, in which case he does not make any guarantee to the person to whom the bill of exchange is ultimately indorsed.237 The drawer also guarantees both acceptance and payment.238 He may release himself from guaranteeing acceptance, but unlike an indorser, he may not release himself from the guarantee of payment.239 The drawer of a check guarantees payment and any statement purporting to release him from this guarantee will be void.240 The indorser of a check guarantees payment in the absence of a contrary stipulation.241

The French Commercial Code’s restriction on use of personal defenses is similar to treatment of rights of holders in due course under U.C.C. section 3-305. A person sued on a bill of exchange or a check may not raise a defense based on his relations with the drawer or with previous holders unless the holder knowingly acted to the debtor’s detriment in acquiring the bill.242 These provisions are a compromise between the pre-Geneva Convention French and German rules that a plaintiff could not maintain a cause of action if he knew of the debtor’s defenses when he acquired the instrument and the stricter view that a plaintiff should prevail unless a plaintiff and the previous holder conspired to injure the debtor.243 The 1928 draft convention held that a plaintiff’s bad faith was a defense to suit on the instrument. The Geneva Convention rejected this rule as too great an impediment to negotiability.244 The Geneva Convention and the French Commercial Code in effect define bad faith.245 A majority of the delegates believed that

236. C. COM. art. 119; Bills of Exchange Convention art. 15. Compare U.C.C. § 3-414(1) which provides that “[u]nless the indorsement otherwise specifies. . . every indorser engages that upon dishonor and any necessary notice of dishonor and protest he will pay the instrument according to its tenor. . . .” Id.
237. C. COM. art. 119; Bills of Exchange Convention art. 15.
238. C. COM. art. 115; Bills of Exchange Convention.
239. C. COM. 115; Bills of Exchange Convention art. 9. Any provision purporting to release him from the guarantee of payment will be deemed not not written, “non écrite.”
240. Cheque Convention art. 12; Check Laws art. 1 § 12.
241. Cheque Convention art. 18; Check Laws art. 1 § 18.
242. For treatment of liability on bills of exchange, see Bills of Exchange Convention art. 17; C. COM. art. 121. For treatment of liability on checks, see Cheque Convention art. 22; Check Laws art. 1 § 22.
243. O. GILES, supra note 196, at 167.
244. Id.
245. See supra note 242 and accompanying text.
mere knowledge of defenses should not prevent a holder from asserting a claim, but knowledge and intent to injure the debtor at the time the holder acquired the instrument should be a defense.246 The French, German, Austrian, and the Italian courts of last resort have all addressed the issue: when does a holder act knowingly to the debtor's detriment by acquiring a negotiable instrument and thereby permit the debtor to assert a personal defense?247

Several illustrative holdings indicate the scope of personal defenses. If a holder has actual knowledge of a defense at the time he acquires the instrument and he knows that he will deprive defendant of that defense if he acquires it, his suit on the instrument will fail.248 If the plaintiff knew of the business transaction between the drawer and the previous holder but did not know details of the dispute, the defendant may not assert the personal defense in an action on the instrument.249 If facts surrounding the negotiation placed the plaintiff on notice that the defendant could have pleaded fraud in defending a suit by an earlier holder and that the earlier holder negotiated the instrument to avoid that defense, the plaintiff's suit will fail even if he does not know the exact basis for the claim of fraud.250 If a holder has reason to know of defenses, and knows that he will injure the defendant by acquiring the instrument, the defendant may maintain a successful defense.251 If the defendant shows that a holder was grossly negligent in failing to take precautions that a reasonably prudent businessman should take, and if the holder had taken those precautions he would have known of a defense, a court will exercise a rebuttable presumption that the holder had actual knowledge of the defense.252

A court generally will consider a holder's state of mind at the time he acquires a negotiable instrument. If the holder had no knowledge of a defense when he obtained the instrument but later did something closely related to the acquisition which damaged defendant, a court will find that the later action related back to the time of acquisition.253

246. O. Giles, supra note 196, at 167.
247. Id.
248. Id. at 168. For example, if the drawer of a bill of exchange sells goods to the acceptor but fails to deliver the goods, and then discounts the bill to a bank that is aware of the fraud, the acceptor may maintain a defense.
249. Id.
250. Id.
251. Id. at 168-69.
252. Id.
253. Id.
3. Rationale for Personal Liability

The French Civil Code imposes almost strict liability for injuries caused by "[a]ny act by anyone which causes any injury to another, obliges the wrongdoer to repair the injury."\(^{254}\) The phrase "any act" implies strict liability, but mention of the word "fault" suggests a more lenient standard. This provision is ambiguous and courts sometimes hold a principal liable for unauthorized acts of agents under this provision.\(^{255}\) Courts recently have turned toward application of apparent authority to avoid broad interpretation of this act.\(^{256}\) Other authorities explain that a business agent is responsible for damage to third parties caused by his fault in the execution of his contract.\(^{257}\) Reference to fault again implies less than strict liability.

In addition to personal liability for injuries he causes, an agent is liable on the instrument if he exceeds his authority in issuing a negotiable instrument. The French Commercial Code adopted article 8 of the Bills of Exchange Convention. Anyone who signs a bill of exchange as an agent for a person for whom he did not have authority to act is personally bound on the instrument, and if he pays, he will have the same rights that the claimed principal would have.\(^{258}\) This rule treats an agent who exceeds his authority in the same way as an agent who acts without authority.\(^{259}\) The Report of the Drafting Committee interprets this article to provide that an agent who executes a bill of exchange for an amount greater than he is authorized will be liable for the full amount, not just for the amount by which the bill exceeds his authorized limit.\(^{260}\) If one person without authority or capacity signs an instrument, however, other signatures on the instrument remain valid.\(^{261}\) Other authorities note that a third party may not take advantage of his own negligence in failing to discover the scope of an agent's authority when the agent signs without authority to bind his

\(^{254}\) "Tout fait quelconque de l'homme, qui cause à autrui un dommage, oblige celui par la faute duquel il est arrivé, à le réparer." C. civ. art. 1382.

\(^{255}\) See infra text accompanying notes 313-318.


\(^{257}\) 1 ENCYCLOPÉDIE DALLOZ, Agent d'Affaires § 87 (1956).

\(^{258}\) C. com. art. 114. Cf. U.C.C. § 3-404(1).

\(^{259}\) Id.

\(^{260}\) Hudson & Feller, supra note 186, at 351.

\(^{261}\) C. com. art. 114; Bills of Exchange Convention art. 7.
principal.\textsuperscript{262}

In addition to liability on the instrument, if the agent exceeds his authority, he may be liable for breach of warranty of authority. If an agent’s lack of authority injures a third party who in good faith relies on the agent’s manifestation of authority to bind the principal, the third party may hold the purported agent liable,\textsuperscript{263} but generally will have no cause of action against the principal.\textsuperscript{264} An agent may, however, disclaim this implied warranty. An agent who exceeds his authority after giving a third party adequate notice of its proper scope will not be liable unless he is personally bound on the contract.\textsuperscript{265} The law is unclear as to what constitutes adequate disclosure but the agent should show the third party the \textit{mandat}, or agreement, authorizing him to act along with all other relevant documents.

4. Signature by Agent

An agent may sign a negotiable instrument on the principal’s behalf.\textsuperscript{266} If the agent is authorized to sign the instrument only the principal is bound, provided that the instrument clearly acknowledges representative capacity of the signature. If the agent’s representative capacity does not appear on the instrument, even if the agent signed for the principal, the agent assumes personal liability on the negotiable instrument.\textsuperscript{267} If the third party has actual knowledge of the agency relationship; however, the principal may be liable.\textsuperscript{268} If a person claiming to represent another signs as if he were an agent, but he either has no authority or exceeds his authority, he will be personally obligated.\textsuperscript{269}

An agent under the French Code may obtain authority by operation of law under a statute or court order, or by contract with the per-
son he represents. When there is a voluntary or consensual agency relation, the principal confers authority by an act termed the procura-
tion or mandat. The procuration must follow the form prescribed by law only if the underlying transaction is one that the law was designed to govern and if the statute requires the prescribed form in the interests of the parties. The procuration does not need to be written, but the prudent legal advisor will require a written contract for evidentiary purposes. The contract creating an agency relation may be a public act or document, a simple contract, or even a letter. It may be given orally, but if there is a dispute the agency contract may only be proven according to strict limitations prescribed in the Civil Code title "Contracts or Conventional Obligations in General." Acceptance of the agency contract may be implied, and will then empower the agent to bind the principal in matters within the scope of the authority granted.

The French Civil Code prevents unjust enrichment by recognizing a principle related to the Anglo-American equitable doctrine of quasi contract. The agent may bind the principal despite absence of pre-existing authority or ratification of the agent’s act benefited the principal. The principal must satisfy all obligations contracted on his behalf by his agent, and should reimburse the agent for all useful or necessary expenses the agent incurred in a properly managed business transaction. Planiol and Ripert note that by conferring representative authority on anyone who, in certain situations, acts for the benefit of another, this article supports the policy of avoiding unjust enrichment.

French businesses employ four general kinds of agents: representants salaries, voyageurs—representants—placiers (V.R.P.s. or representants statutaires), agents commercaux, and representants mandataires. The French Labor Code governs transactions with the

274. Id. art. 1985.
275. Id.
276. Id.
277. M. PLANIOL & G. RIPERT at 71-72, citing C. civ. art. 1375.
278. C. civ. art. 1375.
280. Hay & Müller-Freienfels, Agency in the Conflict of Laws and the 1978
representant salarie and the V.R.P.\textsuperscript{281} The V.R.P. enjoys special rights but he may not engage in business on his own behalf or he will lose his special status.\textsuperscript{282} Agents commerciaux are subject to Decree 58-1345 of December 23, 1958. The French Civil Code governs agents mandataires\textsuperscript{283} and defines the term as:

[A] representative who ordinarily carries on independently and professionally (and otherwise than as an employee) the activity of the negotiation or conclusion of contracts for the sale, purchase, or letting on lease or hire of goods or other property, or the provision of services, for and on behalf of manufacturers, producers or merchants.\textsuperscript{284}

A commercial agency contract must be written,\textsuperscript{285} and a commercial agent may practice only after he registers in the commercial court.\textsuperscript{286} The National Federation of Commercial Agents prepares standard form contracts providing a statement identifying principal and agent, a statement specifying the scope of the agent’s authority, conditions for exercising authority, commission, duration of relation, amendment procedures, and dispute resolution.\textsuperscript{287} Professor Guyenot\textsuperscript{288} discussed the role of the commercial agent:

The negotiation or conclusion of a contract by a commercial agent does not involve him in liability to third parties who deal with him, provided he acts within the limits of his authority, and they can not have recourse to him if the principal does not fulfill his obligations under the contract.\textsuperscript{289}

\begin{itemize}
\item \textit{Hague Convention,} 27 Am. J. Comp. L. 1, 13 (1979).
\item Code de Travail art. L. 751-1 (Daloz 1981-1982).
\item Hay & Müller-Freienfels, \textit{supra} note 280, at 13.
\item C. civ. art. 1984.
\item G. Guyenot, \textit{supra} note 284, at 46, citing Decree of December 23, 1958, art. 1(2).
\item G. Guyenot, \textit{supra} note 284, at 73, 75, citing Decree of December 23, 1958, art. 4, \textit{as amended by Decree of August 22, 1968, supplemented by Order of August 22, 1968.}
\item G. Guyenot, \textit{supra} note 284, at 48.
\item M. Guyenot is Chief Assistant in the Faculty of Law and Economic and Social Sciences at the University of Paris.
\item G. Guyenot, \textit{supra} note 284, at 51.
\end{itemize}
The remainder of the discussion of French agency law will focus on the mandataire libre, or contractual agent. Because this type of agency is purely consensual, characteristics of the agency relation vary substantially. Authority may terminate by agreement between the parties, by death of principal or agent, or by the bankruptcy of the principal. The Civil Code permits the agent to continue acting on behalf of the principal until he learns that his power has terminated. The agent must continue to act even after he learns of his principal's death if his failure to act could cause damage to the principal's estate.

5. Scope of Authority

The French Civil Code appears initially to construe agents' authority strictly. The need to protect innocent third parties and to further the negotiability of commercial instruments has led to a more liberal interpretation of the Code. Whereas the English language distinguishes between an agent's "authority" to act on behalf of a principal and an agent's "power" to bind a principal, French texts use the single word "pouvoir," which is a vaguer term denoting "power," or "ability to act." This linguistic difference causes interpretation of the codes, treatises, and judicial opinions to be more difficult and causes discussion of agent's liability to be less clear.

The Civil Code defines actual authority strictly. The agent may not exceed the authority he received in the agency agreement; authority to negotiate does not include authority to compromise the principal's rights. The agency agreement written in general terms only empowers the agent to perform administrative acts. If the agent intends to alienate or pledge the principal's property the agency agreement must provide expressly that the agent has such authority.

Although the scope of an agent's actual authority may be construed strictly, the Code treats its duration broadly. An agent's representative capacity does not begin or end until the agent has actual no-

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290. Id. at 148.
291. Id. at 63.
292. C. civ. art. 1991(2); G. Guyenot, supra note 284, at 63.
293. "Authority" connotes rightful conduct; "power" denotes conduct that may exceed the authority that the agent received from the principal.
296. Id.
tice of the fact beginning or terminating his authority,\textsuperscript{297} or until he receives a notification required by law.\textsuperscript{298} If a principal restricts or revokes an agent's authority, even if he properly notifies the agent, he may not assert this change in status as a defense to claims by third parties who acted in good faith\textsuperscript{299} without knowledge of the change.\textsuperscript{300} In order to end all powers of the agent, the principal must notify third parties according to statutory requirements for publicizing the change or in the manner most likely to give the third parties actual notice of the revocation of the agent's authority.\textsuperscript{301} The principal may require the agent to return any document declaring the agent's representative authority.\textsuperscript{302} This may not, however, be adequate notice to third parties to free the principal from liability for later contracts the agent enters on the principal's behalf.\textsuperscript{303} What constitutes adequate notice remains unclear. A principal revoking or reducing an agent's authority should give actual notice to all people with whom the agent has dealt and should take reasonable measures to notify those with whom the agent is likely to deal.

French courts recognize the need for predictability in business relations and, therefore, sometimes find that an agent binds his principal even when the agent exceeds his authority or acts without any authority.\textsuperscript{304} The resulting judicial interpretations of the Civil Code resemble apparent authority in Anglo-American law and inherent power in United States practice. French courts are willing to protect a third party who relies reasonably and in good faith on the appearance of authority, if the purported principal is responsible for the appearance of authority or if the third party relied on the existence of authority normally granted to a permanent employee in the agent's position.\textsuperscript{305}

In some cases, statutes create an irrebuttable presumption of authority. Statutes creating limited liability corporations render any contractual limitation on an agent's authority invalid as related to third parties.\textsuperscript{306} Although the agent may have power to bind the principal he

\textsuperscript{297} C. civ. art. 2008.

\textsuperscript{298} M. PLANIOL & G. RIPERT, supra note 264, at 69.

\textsuperscript{299} C. civ. art. 2009; M. PLANIOL & G. RIPERT, supra note 264, at 69.

\textsuperscript{300} C. civ. art. 2005; M. PLANIOL & G. RIPERT, supra note 264, at 69.

\textsuperscript{301} M. PLANIOL & G. RIPERT, supra note 264, at 69.

\textsuperscript{302} C. civ. art. 2004.

\textsuperscript{303} M. PLANIOL & G. RIPERT, supra note 264, at 69.

\textsuperscript{304} Id. at 70.

\textsuperscript{305} Id.

\textsuperscript{306} Id.
may be liable to the principal for exceeding his authority under the contract. The French Cours de Cassation Civil met in plenary assembly and extended the doctrine of apparent authority in *Banque Canadienne Nationale v. Directeur General des Impots.* The defendant relied on Civil Code provisions and earlier judicial opinions to argue that it could only be obligated on the instrument if it had acted in bad faith or given actual authority to the director to sign the instrument on its behalf. Since neither was applicable, the bank argued it should not be held liable. The Cours de Cassation, however, found the defendant liable under a new rule: an agent may bind his principal by exercise of apparent authority, even if the principal is without fault, if the third party's belief as to the extent of the agent's powers is reasonable and the circumstances justify the third party's failure to verify the precise scope of the agent's authority. It is significant that the court did not refer to any provisions of the French codes, rather it based its decision on a finding that the agent acted within the normal scope of authority for a person holding his office.

The commentator, Professor Jean Calais-Auloy, found the court in *Banque Canadienne Nationale* had abandoned earlier established law and recognized a new legal principle. The plaintiff did not assert that the defendant held out the agent as having authority, or that it relied on the defendant's representations implying that the agent had authority. Calais-Auloy noted that the decision appeared inconsistent with the Civil Code. Public policy, however, supported the decision. Businessmen must be certain of the validity of their acts without complicated and time-consuming research. It is especially important for people dealing with a company's agent to be able to rely on the agent's apparent authority without painstaking study of corporate bylaws.

Professor Calais-Auloy questioned the efficacy of the holding. He noted that modern business' need for quick decisions is not new; law
has evolved to satisfy this need since the beginning of the century. Calais-Auloy noted that legislators might in the future fix the authority of all agents as they had the authority of agents of limited liability corporations.

Before the Banque Canadienne Nationale opinion, courts based liability of a principal for unauthorized acts of agents on a theory of fault. Courts invoked two provisions: article 1382 of the Civil Code, which created liability for the defendant's own wrongful act and article 1384(5), which created liability for acts of defendant's managing officers and directors. Courts based corporate liability on article 1382 by finding that the principal acted wrongfully by concealing from third parties the limitation on the agent's authority, and by holding that this concealment injured innocent third parties who relied on the incorrect belief that they were creditors of the principal. Courts found that the most adequate compensation to third parties was to hold the principal a debtor to the contracting third party as if the agent had acted within the scope of his authority. Unlike article 1382, article 1384(5) does not impose liability on a principal for his personal fault, but for the fault of an agent acting in a supervisory role. This provision has the practical and theoretical advantage of imposing liability for the clear fault of the agent rather than on the uncertain fault of the principal. As in suits under article 1382, the injured third party may have the court require the principal to pay as if the agent acted within the scope of his authority.

6. Ratification

An agent who is personally liable on a negotiable instrument because he exceeded the scope of his authority may escape liability to a third party by his principal's explicit or implicit ratification of his...
act.\textsuperscript{320} Not only will ratification cause a principal to become bound on an instrument his agent executed without authority;\textsuperscript{321} ratification will also confer actual authority to commit the act the agent already performed.\textsuperscript{322} Courts often find ratification, which relates back to the time of the act, when an agent exceeds his authority or when the court finds an apparent agency.\textsuperscript{323} Ratification is a unilateral manifestation of consent expressed by the principal or by a person authorized to act on his behalf and it may occur at any time.\textsuperscript{324} Although ratification may free an agent from liability to a third party on a negotiable instrument, his obligation to the principal is governed by a separate contract. The agent, therefore, may be liable off the instrument for breach of his employment contract.

C. Summation

The Geneva Conventions on negotiable instruments influenced commercial law in continental Europe and Japan. The French experience is typical; France adopted the rigid rules of the Convention into its Code de Commerce. The French Commercial Code and the Geneva Conventions on negotiable instruments prescribe rules similar to those governing negotiable instruments in the United States and England. An agent who signs a negotiable instrument will be personally liable unless the face of the instrument makes his representative capacity clearly apparent and he signs with authority of the person he represents. The existence and the scope of representative authority are essential issues in determination of who is liable on the instrument. The French Civil Code construes an agent's authority strictly. The Cours de Cassation, however, appears willing to expand the statutory provisions to include representative capacity analogous to apparent authority or inherent power in United States practice.

V. Choice of Law

The essential similarity between commercial law among western nations reduces somewhat the importance of choice of law principles.

\begin{itemize}
\item \textsuperscript{320} C. civ. art. 1998.
\item \textsuperscript{321} \textit{Id}.
\item \textsuperscript{322} M. Planiol & G. Ripert, \textit{supra} note 264, at 71.
\item \textsuperscript{323} \textit{Id}.
\item \textsuperscript{324} \textit{Id}.
\end{itemize}
However, differences in local law remain and a substantial body of legal theory has evolved to aid courts in determination of which local law to apply. Each legal system balances concerns of party autonomy and power to contract for application of a chosen law with a need for judicial predictability and fear of overreaching. The following analysis discusses the efficacy of choice of law clauses and principles for selecting local law in the absence of express provisions in the instruments.

A. United States

The Uniform Commercial Code and developing precedent further party autonomy by permitting choice of applicable law, providing that the parties select law of a state bearing a reasonable reaction to the transaction. This limitation protects parties in a weak bargaining position from overreaching by a more powerful potential adversary. It also protects an overburdened judicial system from having to research and apply the law of distant states and nations when application of the law of the foreign jurisdiction is not foreseeable—and perhaps not desired by at least one party to the transaction. Section 1-105(1) states the Code's basic choice of law principles:

Except as provided hereafter in this section, when a transaction bears a reasonable relation to this state and also to another state or nation the parties may agree that the law either of this state 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 state.

The drafting of the first sentence is unfortunate. The drafters intended to permit parties to an instrument to select the law of any state with a reasonable connection to the transaction. As written, however, if a


327. Section 1-105(2) states exceptions to the general rule that are not relevant to discussion of negotiable instruments under article 3.

328. See U.C.C. § 1-105 official comment 1.
party brings suit in a state that does not have a reasonable relation to the instrument courts of that state may not be bound by the parties’ otherwise appropriate choice of law.\textsuperscript{329}

The term “agree” in Section 1-105(1) may include an implied understanding that the law of a certain state or nation should govern the transaction.\textsuperscript{330} The Code does not define “agree,” but provides that “agreement” means “the bargain of the parties in fact as found in their language or by implication from other circumstances including course of dealing or usage of trade or course of performance.”\textsuperscript{331} If a transaction has the closest connection with a jurisdiction other than the forum, the parties did not specify the applicable law, and the parties are most familiar with the law of the foreign jurisdiction, then courts should apply that jurisdiction’s law.\textsuperscript{332}

The United States Supreme Court defined the appropriate standard\textsuperscript{333} for a “reasonable relation” in \textit{Seeman v. Philadelphia Warehouse}.\textsuperscript{334} The unanimous opinion authored by Justice Stone found the place where the parties contracted irrelevant.\textsuperscript{335} The Court recognized the general rule that contracts are governed by the law of the jurisdic-

\begin{footnotesize}
\begin{enumerate}
\item[329.] See Nordstrom & Ramerman, \textit{supra} note 325, at 623, 629.
\item[330.] See U.C.C. § 1-201(3).
\item[331.] \textit{Id.} (emphasis added).
\item[332.] Nordstrom & Ramerman, \textit{supra} note 325, at 632.
\item[333.] U.C.C. § 1-105 official comment 1.
\item[334.] 274 U.S. 403 (1927). In \textit{Seeman}, defendant pledged canned salmon to plaintiff as collateral for a loan. Plaintiff executed a promissory note that named itself debtor and that was payable to its own order. Plaintiff indorsed the note, discounted it to its note banker, and forwarded the proceeds to the borrower—after subtracting a commission of 3\% per year for its services, the brokerage fee and discount. Defendant agreed to repay the face amount of the loans at the end of one year or to pay additional charges to refinance for another year. The effective interest rate varied between 8 ½ \% and 10 ½ \% but the maximum legal rate for interest on loans was 6\% under the laws of New York and Pennsylvania. Plaintiff sued for conversion when defendant fraudulently regained possession and sold the pledged salmon. Defendant argued that the transaction involved a usurious loan, New York law applied and New York law made the entire transaction void. Plaintiff argued that it made a loan of credit rather than of money so the usury limits did not apply; even if the transaction were a usurious loan, Pennsylvania law should apply to enforce repayment of principal and the maximum legal rate of interest. Plaintiff was a Pennsylvania corporation, had its only place of business in Pennsylvania, and required repayment of the loan in Pennsylvania. Defendant argued that New York law applied since the parties conducted negotiations in New York and plaintiff forwarded the funds to the borrower in New York. \textit{Id.} at 404-07.
\item[335.] \textit{Id.} at 407.
\end{enumerate}
\end{footnotesize}
tion where they are to be performed. The law permitted plaintiff to lend money to borrowers outside the state and to require repayment within and according to the laws of plaintiff's state. Justice Stone noted an exception to the rule allowing parties the power to select the law governing the contract: the parties must act in good faith. The Court limited the scope of the rule:

The effect of the qualification is merely to prevent the evasion or avoidance at will of the usury law otherwise applicable, by the parties' entering into the contract or stipulating for its performance at a place which has no normal relation to the transaction and to whose law they would not otherwise be subject. . . . Assuming their real, bona fide intention was to fix the situs of the contract at a certain place which has a natural and vital connection with the transaction, the fact that they were actuated in so doing by an intention to obtain a higher rate of interest than is allowable by the situs of some of the other elements of the transaction does not prevent the application of the law allowing the higher rate.

The Court concluded by noting that the plaintiff contracted for payment in the forum where it was incorporated and where it conducted its business. The selection of Pennsylvania law was not frivolous, and was binding on the parties because Pennsylvania had a reasonable relation to the transaction.

In Morgan Walton Properties, Inc. v. International City Bank & Trust Co., the Florida Supreme Court held that the Louisiana usury

336. Id.
337. Id.
338. Id. at 408.
339. Id.
340. Id. at 409.
341. 404 So. 2d 1059 (Fla. 1981). Defendants argued that the Florida criminal usury statute applied and that it made the entire obligation unenforceable. See Fla. Stat. § 687.071(2) (1972). The trial court held that Louisiana law applied and that under Louisiana law there was no limit to interest chargeable to a corporation. 404 So. 2d at 1061. Defendants appealed and the Fifth Circuit certified the following question to the Florida Supreme Court:

Are notes executed and payable in a state other than Florida, secured by a mortgage on Florida real estate, providing for interest legal where made, but usurious under Florida law, unenforceable in Florida courts due to Florida's usury statute, public policy or otherwise, where (a) the interest charged or paid exceeds 25 percent and (b) where the interest charged does not exceed 25 percent, but exceeds the maximum interest rate al-
statute should govern promissory notes executed in Louisiana but secured by a mortgage on property in Florida.\textsuperscript{342} The Florida Supreme Court noted that the law of the state where the parties entered into and performed the contract traditionally governed the contract's validity and interpretation.\textsuperscript{343} In an earlier case decided the same year, however, the Florida Supreme Court found that this traditional rule for choice of law "is today of little practical value since these contacts are so easily manipulated in our mobile society."\textsuperscript{344} The \textit{Morgan Walton Properties} court held that Florida would apply Louisiana law to uphold the parties' express or implied intent since Louisiana had a normal and reasonable relation to the notes,\textsuperscript{345} the parties implicitly or explicitly had agreed to be bound by Louisiana law,\textsuperscript{346} and Florida did not have a sufficiently strong public policy to justify adoption of Florida law.\textsuperscript{347}

The \textit{Morgan Walton Properties} opinion relied heavily on \textit{Continental Mortgage Investors v. Sailboat Key, Inc.},\textsuperscript{348} in which the Florida Supreme Court reversed a lower court's holding that Florida's usury law was applicable to a financing agreement between a Florida corporation and a Massachusetts business trust. The district court of appeal\textsuperscript{349} found that Massachusetts had no substantial connection to the transaction and that the parties selected Massachusetts law solely to avoid strong public policy expressed in the Florida usury law. On appeal the Florida Supreme Court reversed and found that Massachusetts did have a reasonable relation to the transaction.\textsuperscript{350} The Florida

\begin{footnotes}
\item[342.] \textit{Morgan Walton Properties, Inc.}, 404 So. 2d at 1063.
\item[343.] \textit{Id.} at 1061, citing Brown \textit{v. Case}, 80 Fla. 703, 86 So. 684 (1920); Thompson \textit{v. Pyle}, 39 Fla. 582, 23 So. 12 (1897); Perry \textit{v. Lewis}, 6 Fla. 555 (1856).
\item[345.] \textit{Id.} at 1062-63. The court cited \textit{Seeman} as it held courts should honor the parties' choice of law if the choice bore a reasonable relation to the transaction, "even if the parties' purpose in making it was to avoid the restrictive effects of Florida's usury law." \textit{Id.} at 1063.
\item[346.] \textit{Id.} at 1063.
\item[347.] \textit{Id.}
\item[348.] 395 So. 2d 507 (Fla. 1981) [hereinafter cited as \textit{CMI}].
\item[350.] \textit{CMI}, 395 So. 2d at 513. One of the parties was a Massachusetts business trust with offices in Massachusetts, and the parties executed the agreement in Massa-
\end{footnotes}
public policy against usury was not strong enough to invalidate the parties' choice of law even if they were motivated primarily be a desire to avoid Florida's usury statute.351

Drafters of the Code wanted to achieve as high a degree of uniformity in the law as possible. Only Pennsylvania had enacted the Code by the time the drafters finished the first revision of section 1-105,352 and the Pennsylvania legislature may not have foreseen the nearly unanimous enactment of the Code. Because the drafters preferred to have cases decided according to the U.C.C., they provided in the second sentence of section 1-105(1), so that the forum's version of the code should govern if the parties did not select another jurisdiction's law and if the forum bore an appropriate relation to the transaction.353 What constitutes an appropriate relation remains unclear. The Supreme Judicial Court of Massachusetts discussed this provision in *Industrial National Bank of Rhode Island v. Leo's Used Car Exchange, Inc.*354 as it held that Massachusetts law applied to a transaction in which a Massachusetts corporation drew a check on a Massachusetts bank payable to an automobile dealer in Connecticut and cashed by a bank in Rhode Island.355 The court noted that Rhode Island, Connecticut, and Massachusetts each bore a reasonable relation to the transaction and the parties could have stipulated that the law of any of these states should apply.356 Because the parties did not explicitly choose the applicable law and because Massachusetts bore an appropriate relation to the transaction, the Massachusetts Uniform Commercial Code governed.357

The Code gives preference to the forum's version of the U.C.C. if the parties fail to agree upon applicable law;358 however, the Code does not encourage application of the forum's non-U.C.C. substantive law.359 Courts must apply traditional choice of law rules to determine

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chusets. *Id.* at 508.

351. *Id.* at 509.


353. See U.C.C. § 1-105 official comment 2.


355. *Id.* at 800, 291 N.E.2d at 605.

356. *Id.* at 800 n.3, 291 N.E.2d at 605 n.3.

357. *Id.* at 800, 291 N.E.2d at 605.

358. See U.C.C. § 1-105 official comment 2.

359. *Id.*
applicable law if the forum does not bear an appropriate relation to the
transaction, or to select appropriate non-code law in the absence of
agreement between the parties. The Restatement\textsuperscript{360} discusses choice of
law principles for negotiable instruments,\textsuperscript{361} which are applicable if
neither the Code nor the parties' agreement designates appropriate law.
If the instrument designates a place of payment the local law of that
jurisdiction governs obligations of the maker of a note or the acceptor
of a draft.\textsuperscript{362} If the instrument does not designate a place of payment
the local law where the maker or acceptor delivered the instrument will
control his obligations.\textsuperscript{363}

The drafters of the Restatement noted the importance of predict-
ability in negotiable instruments and, therefore, proposed that a single
set of contacts govern choice of law for obligations of makers and ac-
ceptors.\textsuperscript{364} They recognized that fairness required keeping the obliga-
tions of makers and acceptors constant throughout the life of the in-
strument, and suggested that initial delivery or designation of place of
payment fix the parties' obligations.\textsuperscript{365} Therefore, the local law of the
place where a drawer or indorser delivers the instrument controls the
obligations of an indorser of a draft or a note and of the drawer of a
draft.\textsuperscript{366} The drafters noted the different responsibilities of drawers, in-
dorsers, makers, and acceptors, and concluded that a different set of
laws may govern the obligations of each party to the instrument.\textsuperscript{367}
Therefore, the local law of the jurisdiction where presentment, pay-
ment, protest, or notice of dishonor occur governs details of each of
those transactions.\textsuperscript{368} Local law of the state where a negotiable instru-
ment is when a holder transfers his interest determines effect of the
transfer.\textsuperscript{369}

In \textit{Exchange Bank and Trust Co. v. Tamerius},\textsuperscript{370} the Supreme

\textsuperscript{360} In this discussion "Restatement" refers to \textit{Restatement (Second) Con-
flict of Laws} (1971). Compare references to \textit{Restatement (Second) of Agency}
(1958) earlier in this article.

\textsuperscript{361} \textit{Restatement} §§ 214-217.

\textsuperscript{362} \textit{Id.} § 214(1).

\textsuperscript{363} \textit{Id.} § 214(2).

\textsuperscript{364} \textit{Id.} comment b at 702.

\textsuperscript{365} \textit{Id.}

\textsuperscript{366} \textit{Id.} § 215(1).

\textsuperscript{367} \textit{Id.} comment b at 707.

\textsuperscript{368} \textit{Id.} § 217.

\textsuperscript{369} \textit{Id.} § 216.

\textsuperscript{370} 200 Neb. 807, 265 N.W.2d 847 (1978). Plaintiff sued on a delinquent

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Court of Nebraska reached the result suggested by the Restatement's analysis. The unanimous court affirmed the lower court's decision that Texas law was applicable because the promissory note provided explicitly that the Texas Consumer Credit Code governed the transaction. The court then noted alternatively that Texas law would govern even if the parties did not choose Texas law. The opinion cited pre-U.C.C. cases for the proposition that the law of the place of payment governs a promissory note unless the parties clearly prefer application of law of the place where the note was made.

The Georgia Court of Appeals considered relationships among federal, Georgia, and Virginia law in Fitzgerald v. United Virginia Bank of Roanoke. The appellants signed the notes in Georgia and mailed them to the appellee. The notes were payable in Virginia. The United States Code permits national banks to charge the highest interest rate that state banks may charge on similar loans. The court found that Virginia law governed the interest rate because the notes were to be paid in Virginia. The court held that the place of performance prevails over the place where the instrument is executed.

promissory note bearing an interest rate of 12.83%. Defendants argued that the loan was usurious and void under the laws of Nebraska. Plaintiffs contended that Texas law governed the note and that the interest charged was valid under the applicable statute.  

371. See Restatement § 214.
372. Tamerius, 200 Neb. at 810, 265 N.W.2d at 849.
373. Id. at 810, 265 N.W.2d at 850.
374. Id. at 810, 265 N.W.2d at 850, citing United Bank & Trust Co. v. McCullough, 115 Neb. 327, 212 N.W. 762 (1927); Farm Mortgage & Loan Co. v. Beale, 113 Neb. 293, 202 N.W. 877 (1925).
375. 139 Ga. App. 664, 229 S.E.2d (1976). Appellee, a national bank doing business in Virginia, sued appellant on two delinquent promissory notes. Appellants argued that the notes prescribed a usurious rate of interest under Georgia law so they should only be liable for outstanding principal. Id. at 664-65, 229 S.E.2d at 139.
376. Id. at 665, 229 S.E.2d at 139.
377. Id.
379. Fitzgerald, 139 Ga. App. at 666, 229 S.E.2d at 140.
380. Id. (citing Vinson v. Platt & McKenzie, 21 Ga. 135 (1856)); Liberty Loan Corp. v. Crowder, 116 Ga. App. 280, 157 S.E.2d 52 (1967). Cf. Gulf Collateral, Inc. v. Morgan, 415 F. Supp. 319 (S.D. Ga. 1976) (in which the court cited the Restatement § 214(2) to support the proposition that the local law of the place where promissory notes are executed governs their validity rather than the law of the state where they are payable. This section is only applicable if the parties did not designate the place of payment on the instrument).
The United States Constitution requires each state to give full faith and credit "to the public Acts, Records, and Judicial Proceedings of every other state." In 1948 Congress enacted legislation implementing the following provision:

Such Acts, records and judicial proceedings or copies thereof . . . shall have the same full faith and credit in every court within the United States and its Territories and Possessions as they have by law or usage in the courts of each State, Territory or Possession from which they are taken.

These provisions balance policies favoring res judicata and uniformity of decisions with policies supporting federalism. The practitioner should consider the ramifications of the Full Faith and Credit Clause before selecting a forum for litigation. The Missouri Court of Appeals summarized the effects of the full faith and credit clause in Jennings v. Klemme. The court noted that the only defenses that may prevent entry of judgment under the full faith and credit clause are that the original court did not have subject matter jurisdiction, that the defendant did not have reasonable notice or opportunity to be heard in the original suit, or that the judgment resulted from fraud. The opinion then noted that the Full Faith and Credit Clause precludes

381. U.S. CONST. art. IV, § 2. The Full Faith and Credit Clause only applies to "Acts, Records, and Judicial Proceedings" of sister states; it does not apply to international situations. See generally RESTATEMENT § 2, comment b.
383. 620 S.W.2d 403 (Mo. App. 1981). In 1967 defendants executed a promissory note to plaintiffs. The note contained a warrant of attorney to confess judgment if defendant became delinquent in payments. The note did not mention a corporation, but defendants signed the note, "Lem Klemme, Pres.,” and "Yvonne Klemme, Sec.-Treas." The Illinois circuit court entered judgment by confession when defendants did not pay the note. Illinois law only permits garnishment of salary if defendant has been served with notice and given opportunity to appear. Plaintiff, therefore, served each defendant with a summons stating that if he failed to appear, "A judgment by confession for $39,893.68 entered against you on December 7, 1970, may be confirmed." Defendants ignored the summonses and the Illinois court confirmed judgment. Plaintiffs then filed a petition in Missouri court for registration of the Illinois judgment pursuant to the Uniform Enforcement of Foreign Judgments Law. Defendants then sought to raise the defense in U.C.C. § 3-403(2) by parol evidence that they signed on behalf of a partly disclosed principal. The Missouri Court of Appeals affirmed the trial court’s holding for plaintiffs. Id. at 404-07.
384. Id. at 406 (citing W.B.M. v. G.G.M., 579 S.W.2d 659, 661 (Mo. Ct. App. 1979)).
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consideration of the underlying cause of action, of the analysis of the foreign judgment or of the law supporting the foreign court's decision. 

B. England

English rules for choice of law are different from provisions of the Restatement. The Bills of Exchange Act treats each contract on the instrument separately, and applies the law of the jurisdiction where that contract was entered to determine its validity and interpretation. Section 72 states choice of law rules applicable to bills of exchange; section 89 applies these rules to promissory notes.

The Bills of Exchange Act distinguishes between inland or foreign bills of exchange. Courts treat a bill of exchange as an inland bill unless the face of the instrument shows it is foreign. The law of the jurisdiction where a person draws, indorses, or accepts an instrument or accepts a bill over protest generally governs interpretation of his rights and obligations. If a person indorses an inland bill in a foreign country, however, the courts will apply United Kingdom law to interpret the indorsement's effect on rights and obligations of the payor.

For choice of law purposes a party enters a contract on a bill of exchange or a promissory note where he delivers the instrument rather than where he attaches his signature. If the defendant argues that an instrument is invalid according to the law of the jurisdiction where it is issued, he must prove the foreign law as a question of fact. The Court of Appeals has found that law governing transfer of personal property also controls negotiation of bills of exchange and checks in a foreign country.

385. Id. at 406 (citing Matter of Estate of Fields 588 S.W. 2d 50, 52 (Mo. Ct. App. 1979)).
386. See Bills of Exchange Act §§ 72(1), 72(2).
387. Bills of Exchange Act § 4(1) defines inland and foreign bills: “An inland bill is a bill which is or on the face of it purports to be (a) both drawn and payable within the British Islands, or (b) drawn within the British Islands upon some person resident therein. Any other bill is a foreign bill.” Id.
388. Id. § 4(2).
389. Id. § 72(2).
390. Id.
391. CHALMERS ON BILLS OF EXCHANGE, supra note 147, at 235.
392. Id.
The law of the place where an instrument was issued determines formal validity. The law of the place where a person accepts, protests, or indorses a negotiable instrument determines formal validity of his contract. The statute states two provisos. First, a negotiable instrument issued outside the United Kingdom will not be invalid merely because it was not stamped according to the law of the jurisdiction where it was issued. Second, if a negotiable instrument satisfies requirements for formal validity in the United Kingdom but is issued abroad, courts may treat it as valid between all people who negotiate, hold, or become parties to it in the United Kingdom.

The following illustrations reflect choice of law principles for formal validity: (1) Law of country A requires a bill of exchange to state the value received but law of B does not. A bill of exchange that does not express the value received is valid if it was drawn in B but payable in A; (2) A bill of exchange drawn and payable in A is invalid according to A's law because it fails to state the value received. If the bill is indorsed in B, where the bill is valid, a holder could sue the indorser in B's court but would have no recourse against the drawer; (3) B's law will determine whether a bill of exchange drawn in B against a drawee in A is unconditional.

The following situations illustrate the effect of section 72(2), which provides rules for interpretation of instruments that are valid under section 72(1): (1) If a negotiable instrument payable to bearer is issued in England and negotiated by delivery in a country that does not recognize bearer instruments, English courts will uphold validity of the transfer; (2) If a holder sues in England on an instrument issued in Belgium and indorsed in blank in France, French law will determine the effect of the indorsement; (3) French law governs an acceptance occurring in France; (4) A check drawn abroad on an English bank

395. Id.
396. Id.
397. See id.
398. CHALMERS ON BILLS OF EXCHANGE, supra note 147, at 235. Cf. RESTATEMENT (SECOND) CONFLICT OF LAWS §§ 214-217 (providing that place of performance generally governs).
399. CHALMERS ON BILLS OF EXCHANGE, supra note 147, at 235.
400. Id.
401. Id. at 236; Bills of Exchange Act § 72(2) paragraph 2.
402. CHALMERS ON BILLS OF EXCHANGE, supra note 147, at 236.
403. Id.
is stolen and the first indorsement is forged. An Austrian bank cashes the check and acquires good title under Austrian law. The Austrian bank sends the check to the drawee through the normal collection process and receives the face value from the drawee. The drawee is not guilty of conversion for improper payment.\textsuperscript{404}

The Cheques Act codified the result in illustration (4) by providing that a banker is not liable for paying an irregularly indorsed check if he pays in good faith and in the ordinary course of business.\textsuperscript{405} The Embiricos decision on which this hypothetical situation is based\textsuperscript{406} found choice of law rules determinative, and created broader protection for bankers than that codified in the Cheques Act.

C. Civil Law Practice and the Geneva Conventions

1. Overview

Delegates to the Geneva Conference which was held from May 13, 1930, to June 7, 1930, signed a convention to regulate choice of law problems for bills of exchange crossing national boundaries.\textsuperscript{407} On March 19, 1931, delegates to a second conference signed a convention regulating conflicts of law problems for checks.\textsuperscript{408} The Conventions were registered with the secretariat and were entered into force on January 1, 1934.\textsuperscript{409} The Conventions provide that the law of the state of a person's nationality governs his capacity to bind himself on a negotiable

\textsuperscript{404}. Id. (citing Embiricos, 1 K.B. 677).
\textsuperscript{405}. Cheques Act § 1, supra note 97.
\textsuperscript{406}. See supra note 404.
\textsuperscript{408}. Convention for the Settlement of Certain Conflicts of Laws in Connection with Cheques, March 19, 1931, 143 L.N.T.S. 409 [hereinafter cited as Cheques Conflicts Convention]. The following states ratified or acceded to the Convention: Austria, Belgium, Brazil, Denmark, Finland, France, Germany, German Democratic Republic, declaring reapplication of the Convention as of June 6, 1958, Hungary, Indonesia, Italy, Japan, Luxembourg, Monaco, Netherlands, Nicaragua, Norway, Poland, Portugal, Sweden and Switzerland. United Nations, Multilateral Treaties in Respect of Which the Secretary-General Performs Depository Functions 580 (1978), U.N.Doc. ST/LEG/SER.D/11 (1978).
\textsuperscript{409}. Cheques Conflicts Convention, 143 L.N.T.S. at 319.
instrument. If choice of law rules in his country provide for application of another’s law, that nation’s local law will determine capacity. The law of the jurisdiction where a person enters a contract arising from a negotiable instrument controls that contract’s form. The law of the jurisdiction where a bill of exchange or promissory note is payable controls the obligations of the acceptor of the bill or maker of the note. The law of the country in which any other person signs the instrument governs the effect of his signature.

The Convention’s emphasis on place of signature, domicile, and jurisdiction where the instrument is payable has the advantage of basing a person’s liability on the law with which he is generally is most familiar and which he generally expects to apply. Emphasis on a single criterion such as place of signature or payment increases predictability of effects of commercial instruments by facilitating determination of appropriate law. The Geneva Conventions on Conflicts of Laws do not include any provisions permitting contractual selection of law or forum; the drafters emphasized uniformity of selection of law at the expense of party autonomy.

2. France

France did not adopt the Geneva Conventions on Conflicts into its legal codes. Commentators deplore the lack of codification and the resulting need to follow archaic law. Conflicts of law principles applicable to negotiable instruments remains unclear. Unlike the Geneva Conventions on Conflicts of Law, France permits parties to exercise substantial discretion in choice of law. The Cours de Cassation has recognized that the law applicable for formation, conditions, or effects of

411. Bills of Exchange Conflicts Convention art. 2, 143 L.N.T.S. at 325; Cheques Conflicts Convention art. 2, 143 L.N.T.S. at 415.
412. Bills of Exchange Conflicts Convention art. 2, 143 L.N.T.S. at 325; Cheques Conflicts Convention art. 2, 143 L.N.T.S. at 415. Cf. U.C.C. § 1-105 (providing that the forum’s version of the Code will govern the form); Bills of Exchange Act § 72 (providing that the place of delivery after execution determines applicable law).
413. Bills of Exchange Conflicts Convention art. 2, 143 L.N.T.S. at 325.
414. Id.; Cheques Conflicts Convention art. 2, 143 L.N.T.S. at 415.
415. See, e.g., ENCYCLOPÉDIE DALLOZ, Droit international- Conflicts de lois § 82 (1968).
contracts is the law that the parties expressly adopt. In the absence of a stipulation by the parties, the court considers circumstances of each case to determine which law should govern the contract. The court also presumes that the parties intend the law of the place of performance to control their obligations. A French principal and a mandataire or contractual agent are generally free to choose any nation's law to control their contract. Claims to compensation by a V.R.P. are subject to French law when the agent lives and performs the contract in France, and parties may not avoid mandatory provisions of the labor code by a choice of law provision in the contract.

The Cours de Cassation developed special choice of law principles applicable to negotiable instruments. If a party contests his obligations under a bill of exchange drawn outside France and payable within France, a French court generally will apply the law of the jurisdiction where the drawees are domiciled. If the instrument is domiciled the court will apply law of the jurisdiction where it is payable, or where plaintiff signed a protest.

D. Summation

The practitioner should advise an agent executing negotiable instruments that he expects to cross national or state boundaries to include an explicit choice of law clause. United States courts generally will uphold the provision if the parties select the laws of a jurisdiction with a reasonable relation to the transaction. What constitutes a reasonable relation remains unclear, but the domicile of one of the parties or the place of performance of some part of the transaction should have sufficient connection to satisfy U.C.C. section 1-105(1). Unlike the Uniform Commercial Code, the English Bills of Exchange Act emphasizes uniformity at the expense of party autonomy. A practitioner whose client does business with the United Kingdom should review

417. Id.
418. 3 JURISPRUDENCE FRANÇAISE, Conflit de lois § 419 (1967).
420. See supra text accompanying note 280.
422. 3 JURISPRUDENCE FRANÇAISE, Conflit de lois § 476 (1967), citing REVUE CRITIQUE DE DROIT INTERNATIONAL PRIVÉ 116 (1939).
423. Id.
choice of law rules in section 72 of the Bills of Exchange Act. The 
Geneva Conventions on Conflicts of Law differ substantially from the 
United States approach as they base choice of law largely on the place 
where a party signs the instrument or where the instrument is payable. 
Although France acceded to the Convention, it did not adopt it into its 
Commercial or Civil Codes. French law remains poorly defined and al-

VI. Proposals for Reform

A. Hague Convention on Agency

When the General Meeting of the Thirteenth Hague Session was 
unable to complete work on a convention on agency, a special commis-
sion of the Thirteenth Session of The Hague Conference on Private 
International Law convened on June 6, 1977, to draft a final agree-
ment. 424 France was the only country to sign the Convention when it 
was opened for signature in March, 1978, 425 and France has not 
adopted its provisions. The Hague Convention adopts a flexible ap-
proach to choice of law in international agency relations and it may 
form the basis for future developments in the area.

The Hague Convention deals solely with choice of law questions; it 
contains no provisions prescribing standards for local law. Article 5 al-

424. Hague Conference on Private International Law, 3 Actes et Documents de 
la Treizieme Session 42 (1978), 26 AM. J. COMP. L. 438 (1978) [hereinafter cited as 


426. Cf. U.C.C. § 1-105(1) (permitting express or implied selection of the law of 
any jurisdiction with a reasonable relation to the transaction).


428. Id.
principal's habitual residence, if he does not have a place of business. The law found applicable under the Convention determines the existence and scope of an agent's authority. Additionally, the applicable law also governs relations between an agent and a third party when the agent exceeds or misuses his authority. The Convention combines elements from several legal systems as it balances policies favoring party autonomy with a need for uniform and predictable decisions. The drafters placed special importance on the parties' choice of applicable law. Unlike the Uniform Commercial Code, the Hague Convention does not limit the right to choose law. Although they may be expected to select law with which they are most familiar, complete party autonomy allows the principal or agent to make frivolous or unfair selections that may burden courts with a need to research and apply rules from a distant jurisdiction.

The Hague Convention furthers policies for uniformity and predictability by stating objective criteria for choice of law in the absence of a stipulation by the parties. In the absence of agreement between parties as to choice of law, the Convention applies law of the state in which the agent does business:

because it is the law indicated by the connecting factor most closely connected with the party who performs the obligation characteristic of the agreement; secondly, because the agent's principal place of business is more likely to coincide with the place where he acts than is the principal's principal place of business; and thirdly, because this solution seems to do justice to the pivotal role of the agent, at the center of the complex of relationships arising in an agency situation. As a connecting factor, the agent's principal place of business has the advantage of being clear and readily ascertainable.

The Convention is particularly significant because it reflects a con-

429. Id.
430. Id. art. 8(a).
431. Id. art. 15.
432. See generally Hay & Müller-Freiensfels, supra note 280.
433. Cf. § 1-105(1) (requiring selection of the law of a jurisdiction that bears a reasonable relation to the transaction).
cerned effort to unify choice of law rules and because the drafters were able to further competing policy concerns by borrowing from several legal systems.

B. UNCITRAL Proposal

The United National Commission on International Trade Law at its second session in Geneva in March, 1969, discussed methods for unifying law governing negotiable instruments in international commerce. The Commission noted that three competing legal regimes controlled bills of exchange and promissory notes transactions among western nations. The delegates concluded that the most effective way to achieve uniformity would be by creation of a new instrument to be used in international commerce and subject to a new uniform law. The final draft of UNCITRAL’s Uniform Law on International Bills of Exchange and Promissory Notes (ULIB) allows private parties to choose whether the UNCITRAL proposal or traditional law should govern each instrument. Although eighteen nations participated in the UNCITRAL draft, the Convention has not been adopted into law.

Parties to a negotiable instrument may choose to have the ULIB govern only if the instrument satisfies requirements of article 1. The instrument must be written and must state in the text “pay against this international bill of exchange, governed by [the Convention of ____].”

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437. Id. at 32.
439. Id. at 35.
441. ULIB art. 1(2). Cf. Bills of Exchange Convention art. 1, C. Cm. art. 110
It must include an unconditional order to pay a definite sum of money to a specified person or to his order, be payable on demand or at a definite time, and be signed by the drawer and dated. An international bill of exchange subject to the ULIB must show that at least two of the following places are in different countries: the place of payment, the place indicated next to the name of the drawee, and the place written beside the name of the payee. The ULIB has similar requirements for a promissory note, but the text must include the provision "against this international promissory note, governed by [the Convention of ___]", and must show that at least two of the following are in different countries; the place where the instrument was made, the place identified next to the signature of the maker or the name of the payee, or the place of payment.

The ULIB paraphrases Uniform Commercial Code provisions discussing an agent's liability on negotiable instruments but rejects admission of parol evidence if it is unclear whether the agent signed in a representative capacity. A person can only be liable on an instrument

(1) An instrument may be signed by an agent.

(2) The signature on an instrument by an agent with authority to sign and showing on the instrument that he is signing in a representative capacity for a named person imposes liability thereon on that person and not on the agent.

(3) The signature on an instrument by an agent without authority to sign, or by an agent with authority to sign but not showing on the instrument that he is signing in a representative capacity for a named person, or showing on the instrument that he is signing in a representative capacity but not naming the person whom he represents, imposes liability thereon on such agent and not on the person whom the agent purports to represent.

(4) The question whether a signature was placed on the instrument in a representative capacity may be determined only with reference to what appears on the face of the instrument.

(5) An agent who is liable pursuant to paragraph 3 and who pays the instrument has the same rights as the person for whom he purported to act would have had if that person had paid the instrument.

ULIB art. 30. Cf. U.C.C. §§ 3-403 and 3-404(1), which provide rules for agents' personal liability. Compare art. 30(5) with § 3-415(5), concerning the doctrine of subrogation.
under the ULIB if he signs it or if an agent signs it on his behalf.\textsuperscript{446} A signature may be by fascimile, symbols, or by any mechanical means.\textsuperscript{447} Furthermore, a person signing another’s name without authority is deemed to have signed his own.\textsuperscript{448} An agent who signs on his principal’s behalf, but without authority, is treated as a forger and is liable for any damages his signature causes.\textsuperscript{449}

The ULIB follows United States practice by recognizing separate classes of holder and protected holder.\textsuperscript{450} A protected holder takes the instrument free from any claims by any person,\textsuperscript{461} free from all defenses but incapacity\textsuperscript{462} or the signer’s excusable ignorance that his signature made him a party to a negotiable instrument,\textsuperscript{463} and free from any claim that the instrument was not presented for acceptance or payment, or that dishonor was not protested.\textsuperscript{464} A drawer, maker, or indorser may protect himself from a protected holder by writing a statement on the instrument such as “not negotiable,” “not transferable,” “not to order,” or “pay X only.”\textsuperscript{456} The transferee of an instrument bearing these words will become a holder only for the limited purposes of collection.\textsuperscript{456}

If the ULIB is adopted, it will provide practitioners greater flexibility in advising their clients. The third draft is patterned closely after the Uniform Commercial Code, and a practitioner should provide similar advice to an agent as to form of signature and necessary authority.

\textsuperscript{446} ULIB art. 22.
\textsuperscript{447} Id. Cf. U.C.C. § 1-201(39), which defines “signature” as “any symbol executed or adopted by a party with present intention to authenticate a writing.” Id.
\textsuperscript{448} ULIB art. 22. Cf. U.C.C. § 3-404(1) (providing that an unauthorized signature obligates the signer on the instrument).
\textsuperscript{449} ULIB art. 22.
\textsuperscript{450} ULIB art. 5, §§ 6-7. A protected holder has rights similar to those of a holder in due course under U.C.C. § 3-305. See ULIB art. 25(1). Compare practice under the Geneva Convention in which there is only one class of holder.
\textsuperscript{451} Cf. U.C.C. § 3-305(1) (granting the same right to a holder in due course).
\textsuperscript{452} Cf. U.C.C. § 3-305(2)(a) (providing the defense of infancy to the extent that local law provides defendant did not have capacity to obligate himself, and § 3-305(2)(b), granting a defense of incapacity to the extent that defendant’s act was void rather than voidable).
\textsuperscript{453} Cf. U.C.C. § 3-305(2)(c) (providing a defense for “fraud in the factum” or “real fraud” for misrepresentation that prevented the signer from learning the nature or essential terms of the instrument he signed).
\textsuperscript{454} These rights of a protected holder are governed by ULIB art. 25.
\textsuperscript{455} See ULIB art. 16.
\textsuperscript{456} Id.
in order to prevent his client's unintended personal liability on the instrument. Drafters of the ULIB intend its provisions to be optional. Lawyers should evaluate their clients' right if the ULIB is applied and also if the client acts under the law of another jurisdiction. The ULIB furthers both party autonomy and uniformity of law because application of the ULIB would be subject to the parties' agreement, and its application would supply substantive law rather than rules for choice of law.

VII. Conclusion

Negotiable instruments receive similar treatment under the Uniform Commercial Code, the English Bills of Exchange Act, and the Geneva Conventions. Differences remain, however, and choice of law principles become increasingly important as the size and frequency of international transactions increase. An agent signing a negotiable instrument in his representative capacity may always escape personal liability on the instrument if he has authority to sign and he signs in the proper form.

In the United States, a person who signs an instrument in another's behalf is personally liable on the instrument, if he did not have authority to obligate the person he claimed to represent. A signer may escape personal liability if he establishes that he had actual or apparent authority, or any other source of power to obligate the principal. The authorized agent should indicate on the instrument that he signs in a representative capacity, and should identify the person in whose behalf he signs.

The English Bills of Exchange Act influenced development of the U.C.C., and negotiable instruments in England have substantially the same effect as in the United States. An agent generally will not be liable on the instrument if he indicates his representative capacity and identifies his principal, even if he exceeds his authority.

The Geneva Conventions are the basis for negotiable instruments law in several nations in western Europe. France adopted these Conventions and French treatment of negotiable instruments follows their provisions. The Code de Commerce provides more stringent formal requirements for negotiability than the Bills of Exchange Act or the U.C.C. France requires the maker or drawer to indicate in the text of the instrument the kind of instrument he is executing and to state the name of the payor. An agent may obligate his principal and escape personal liability on the instrument only if he has authority to bind the
principal and he clearly acknowledges the representative capacity of his signature. The Code Civil suggests that representative authority is strictly construed in France. The Cours de Cassation, however, recognizes a source of authority similar to apparent authority or inherent agency power in United States practice.

The U.C.C. allows parties to an instrument to select the law governing the instrument provided that they choose the law of a state which has a reasonable relation to the transaction. If they do not choose applicable law the forum will apply its own version of the U.C.C., provided that the forum has an appropriate relation to the transaction. If the parties do not choose applicable law and the forum must look beyond its version of the U.C.C. to resolve the dispute, the court will apply general choice of law rules from outside the U.C.C.

The English Bills of Exchange Act treats each contract on the instrument separately, and applies the law of the jurisdiction where that contract was entered into, in order to determine its validity and interpretation. The Bills of Exchange Act furthers predictability at the expense of party autonomy. Courts will choose applicable law on the basis of objective and uniform criteria rather than on the parties' choice of law.

The Geneva Conventions on negotiable instruments include conventions on conflicts of law. These conventions emphasize objective criteria in choice of law, such as place of signature, domicile, and jurisdiction where the instrument is payable. The Geneva Conventions do not contain any provisions permitting contractual selection of law or forum. The drafters of the Conventions emphasized uniformity of selection of law at the expense of party autonomy.

Although France acceded to the Geneva Conventions it did not adopt their provisions on conflicts of laws. France permits parties to exercise substantial discretion in choosing applicable law. If the parties have not selected governing law, courts generally will apply the law with which the parties are most familiar.

Perhaps the most intriguing proposal for reform is UNCITRAL's final draft of a Uniform Law on International Bills of Exchange and Promissory Notes. If this draft is adopted, parties to an international transaction may select a comprehensive body of rules that borrows from each of the major systems of negotiable instruments. Adoption of this proposal would further potentially conflicting policies favoring party autonomy and uniform application of law. Parties to an international transaction could choose to be subject to the ULIB, and the ULIB then would provide the rules governing their rights and obliga-
tions. The transnational practitioner should consult each regime of law as he determines when an agent will be personally liable on a negotiable instrument which the agent signed on his principal’s behalf.