



WISCONSIN LEGISLATIVE COUNCIL ACT MEMO

2009 Wisconsin Act 110
[2009 Assembly Bill 202]

Bulk Transfers of Inventory

The bulk transfer provisions of the Uniform Commercial Code (UCC), set forth in Article 6 of the UCC and codified in the Wisconsin statutes as ch. 406, generally require a business enterprise to give creditors notice before they transfer a major part of the value of the business's inventory or a substantial part of the equipment of the business, if the equipment is included with a bulk transfer of inventory. These provisions apply to all business enterprises whose principal business is the sale of merchandise from stock, including retailers of alcohol beverages.

2009 Wisconsin Act 10 repeals the bulk transfer provisions of the UCC in Wisconsin statutes.

The National Conference of Commissioners on Uniform State Laws (NCCUSL) recommends that states repeal Article 6 of the UCC. NCCUSL has issued the following statement explaining its recommendation:

Bulk sales laws were originally drafted in response to a fraud perceived to be common around the turn of the century: a merchant would acquire his stock in trade on credit, then sell his entire inventory ("in bulk") and abscond with the proceeds, leaving creditors unpaid.

Article 6 was drafted as a response to this "bulk sale risk." It imposes several duties on the buyer in bulk, including the duty to notify all creditors of the impending bulk transfer. It also requires compliance even when there is no reason to believe that the seller is conducting a fraudulent transfer. The Article imposes strict liability for noncompliance. Failure to comply with the provisions render the transfer ineffective, even when the buyer has complied in good faith.

This memo provides a brief description of the Act. For more detailed information, consult the text of the law and related legislative documents at the Legislature's Web site at: <http://www.legis.state.wi.us/>.

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But today, changes in the business and legal contexts in which sales are conducted have made regulation of bulk sales unnecessary. Creditors are better able to make informed decisions about whether to extend credit. Changes in technology have enabled credit reporting services to provide fast, accurate, and more complete credit histories at relatively small cost.

Creditors also have greater opportunity to collect their debts. The adoption of state long-arm statutes and rules have greatly improved the possibility of obtaining personal jurisdiction over a debtor who flees to another state.

And creditors no longer face the choice of extending unsecured credit or no credit at all. Retaining an interest in inventory to secure its price has become relatively simple and inexpensive under Article 9 of the UCC -- adopted in every state. If a bulk sale is fraudulent and the buyer is a party to the fraud, creditors have remedies under the Uniform Fraudulent Transfer Act.

There is no evidence that in today's economy, fraudulent bulk sales are frequent enough, or engender credit losses significant enough, to require regulation of all bulk sales, including the vast majority that are conducted in good faith.

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