Chapter Nine
Choice of law Rules Governing
Agency and Partnerships

- **Agency**
- **I. Relationship of Principal and Agent**
- The rights and duties of a principal and agent toward each other are determined by the local law of the state which, with respect to the particular issue, has the **most significant relationship to the parties and the transaction**.
- This state is selected by a process essentially similar to that employed in the case of a contract.
- The law selected by application of the rule of this Section determines what the agent is authorized to do on the principal's behalf.
- It likewise determines the rights and obligations of the parties toward each other, such as the circumstances under which either the principal or agent can put an end to their relationship, the amount of compensation, if any, to which the agent is entitled, and the liability of the agent to the principal for an unauthorized act.

- In either case of agency created by contract the parties can determine the governing law as to the right and duties between themselves.
- In the absence of an effective choice of law by the parties , the state where performance by the agent is to take place will usually be given the greatest weight.

- **II. Contractual Liability of Principal to Third Person**
- The principal will be held bound by the agent's action if he would so be bound under the local **law of the state where the agent dealt with the third person**, provided at least that the principal had authorized the agent to act on his behalf in that state or had led the third person reasonably to believe that the agent had such authority.
- The local law of the state selected by application of the rule of this Section determines such questions as whether the agent acted with authority or apparent authority, the scope and extent of this authority, and whether such authority had been effectively revoked prior to the agent's act or was revocable at all.

- **III. Ratification by Principal of Agent's Act**
- The consequences of a principal's ratification of action taken on his behalf by an agent in dealing with a third person are determined by the local law of the state which, with respect to the particular issue, **has the most significant relationship to the parties and the transaction.**
- This state will be **the state where agent dealt with third person**.

- **Partnerships**
- **I. Relationship of Partners Inter Se**
- The rights and duties owned by partners to each other are determined by the local law of the state which, with respect to the particular issue, has the most significant relationship to the partners and the transaction.
- This law is selected by application of the rules governing choice of law in contract.
- Sometimes, the partners will intend that their rights and duties toward each other should be determined by the local law of a particular state. If so, the local law of this state will be applied.

- **II. Contractual Liability of Partnership, Pa rtners and Third Person**
- Whether a general partner is bound by action taken on behalf of the partnership by an agent in dealing with a third person is determined by the local law of the state having most significant relationship.
- The liability of a limited partner for action taken on behalf of the partnership by an agent in dealing with a third person is determined by the local law of the state having the most significant relationship to the parties and the transaction, unless the limited partner has taken a significant part in the control of the partnership business or has led the third person reasonably to believe that he was a general partner.
- In either of these latter events, the liability of the limited partner will be determined by application of the local law of the state having the most significant relationship.