

355.9-406 Discharge of account debtor -- Notification of assignment -- Identification and proof of assignment -- Restrictions on assignment of accounts, chattel paper, payment intangibles, and promissory notes ineffective.

- (1) Subject to subsections (2) to (9) and (12) of this section, an account debtor on an account, chattel paper, or a payment intangible may discharge its obligation by paying the assignor until, but not after, the account debtor receives a notification, signed by the assignor or the assignee, that the amount due or to become due has been assigned and that payment is to be made to the assignee. After receipt of the notification, the account debtor may discharge its obligation by paying the assignee and may not discharge the obligation by paying the assignor.
- (2) Subject to subsections (8) and (12) of this section, notification is ineffective under subsection (1) of this section:
 - (a) If it does not reasonably identify the rights assigned;
 - (b) To the extent that an agreement between an account debtor and a seller of a payment intangible limits the account debtor's duty to pay a person other than the seller and the limitation is effective under law other than this article; or
 - (c) At the option of an account debtor, if the notification notifies the account debtor to make less than the full amount of any installment or other periodic payment to the assignee, even if:
 1. Only a portion of the account, chattel paper, or payment intangible has been assigned to that assignee;
 2. A portion has been assigned to another assignee; or
 3. The account debtor knows that the assignment to that assignee is limited.
- (3) Subject to subsections (8) and (12) of this section, if requested by the account debtor, an assignee shall seasonably furnish reasonable proof that the assignment has been made. Unless the assignee complies, the account debtor may discharge its obligation by paying the assignor, even if the account debtor has received a notification under subsection (1) of this section.
- (4)
 - (a) In this subsection, "promissory note" includes a negotiable instrument that evidences chattel paper.
 - (b) Except as otherwise provided in subsections (5) and (11) of this section and KRS 355.2A-303 and 355.9-407, and subject to subsection (8) of this section, a term in an agreement between an account debtor and an assignor or in a promissory note is ineffective to the extent that it:
 1. Prohibits, restricts, or requires the consent of the account debtor or person obligated on the promissory note to the assignment or transfer of, or the creation, attachment, perfection, or enforcement of a security interest in, the account, chattel paper, payment intangible, or promissory note; or
 2. Provides that the assignment or transfer or the creation, attachment, perfection, or enforcement of the security interest may give rise to a default, breach, right of recoupment, claim, defense, termination, right

of termination, or remedy under the account, chattel paper, payment intangible, or promissory note.

- (5) Subsection (4) of this section does not apply to the sale of a payment intangible or promissory note, other than a sale pursuant to a disposition under KRS 355.9-610 or an acceptance of collateral under KRS 355.9-620.
- (6) Except as otherwise provided in subsection (11) of this section and KRS 355.2A-303 and 355.9-407 and subject to subsections (8) and (9) of this section, a rule of law, statute, or regulation that prohibits, restricts, or requires the consent of a government, governmental body or official, or account debtor to the assignment or transfer of, or creation of a security interest in, an account or chattel paper is ineffective to the extent that the rule of law, statute, or regulation:
 - (a) Prohibits, restricts, or requires the consent of the government, governmental body or official, or account debtor to the assignment or transfer of, or the creation, attachment, perfection, or enforcement of a security interest in the account or chattel paper; or
 - (b) Provides that the assignment or transfer or the creation, attachment, perfection, or enforcement of the security interest may give rise to a default, breach, right of recoupment, claim, defense, termination, right of termination, or remedy under the account or chattel paper.
- (7) Subject to subsections (8) and (12) of this section, an account debtor may not waive or vary its option under subsection (2)(c) of this section.
- (8) This section is subject to law other than this article which establishes a different rule for an account debtor who is an individual and who incurred the obligation primarily for personal, family, or household purposes.
- (9) This section does not apply to an assignment of a health-care-insurance receivable.
- (10) Reserved.
- (11) Subsections (4) and (6) of this section do not apply to a security interest in an ownership interest in a general partnership, limited partnership, or limited liability company.
- (12) Subsections (1) to (3) and (7) of this section do not apply to a controllable account or controllable payment intangible.

Effective: January 1, 2025

History: Amended 2024 Ky. Acts ch. 10, sec. 77, effective January 1, 2025. -- Amended 2012 Ky. Acts ch. 132, sec. 76, effective July 1, 2013. -- Repealed and reenacted 2001 Ky. Acts ch. 119, sec. 11, effective July 1, 2001. -- Repealed and reenacted 2000 Ky. Acts ch. 408, sec. 88, effective July 1, 2001. -- Amended 1998 Ky. Acts ch. 542, sec. 8, effective July 15, 1998. -- Amended 1986 Ky. Acts ch. 118, sec. 79, effective July 1, 1987. -- Amended 1978 Ky. Acts ch. 84, sec. 20, effective June 17, 1978. -- Amended 1962 Ky. Acts ch. 83, sec. 20. -- Created 1958 Ky. Acts ch. 77, sec. 9-406.

Legislative Research Commission Note (3/14/2013). 2013 Ky. Acts ch. 10, secs. 2 and 3 provide that the statutes in Article 9 of the Uniform Commercial Code that were amended or created in 2012 Ky. Acts ch. 132, secs. 60 to 99, are effective July 1, 2013. This statute was one of those sections. Since only the effective date of a prior Act was altered, and not the text of the affected statutes, reference to 2013 Ky. Acts ch. 10 does not appear in the history for this statute.

Legislative Research Commission Note (7/12/2012). In 2010, the National Conference of Commissioners on Uniform State Laws and the American Law Institute proposed a Uniform Act for adoption by the states that contained revisions to Article 9 of the Uniform Commercial Code. The effective date for all proposed Article 9 revisions was to be July 1, 2013. Those revisions were enacted in 2012 Ky. Acts Chapter 132, Sections 60 to 99. Sections 60 to 90 contained the substantive Article 9 revisions, and Sections 91 to 99 contained the transitional Article 9 revisions created to handle secured transactions made prior to July 1, 2013. Section 91 of that Act (codified as KRS 355.9-801) and Section 102 of that Act (a noncodified effective date provision) both stated, "Sections 91 to 99 of this Act take effect July 1, 2013." The normal effective date for legislation enacted at the 2012 Regular Session of the General Assembly is July 12, 2012. In Opinion of the Attorney General 12-010, issued July 3, 2012, Section 91 (codified as KRS 355.9-801) was determined to have contained a manifest clerical error, and should have instead read, "Sections 60 to 90 of this Act take effect July 1, 2013," thereby making the substantive Article 9 revisions effective on the same date as the transitional Article 9 provisions in conformity with the 2010 Uniform Act proposal and 2012 Ky. Acts Chapter 132, Section 102. This statute was one of the substantive provisions of Article 9 contained in 2012 Ky. Acts Chapter 132, Sections 60 to 90.