554.9409 Restrictions on assignment of letter-of-credit rights ineffective.

1. *Term or law restricting assignment generally ineffective.* A term in a letter of credit or a rule of law, statute, regulation, custom, or practice applicable to the letter of credit which prohibits, restricts, or requires the consent of an applicant, issuer, or nominated person to a beneficiary's assignment of or creation of a security interest in a letter-of-credit right is ineffective to the extent that the term or rule of law, statute, regulation, custom, or practice:

a. would impair the creation, attachment, or perfection of a security interest in the letter-of-credit right; or

b. provides that the assignment or the creation, attachment, or perfection of the security interest may give rise to a default, breach, right of recoupment, claim, defense, termination, right of termination, or remedy under the letter-of-credit right.

2. *Limitation on ineffectiveness under subsection 1.* To the extent that a term in a letter of credit is ineffective under subsection 1 but would be effective under law other than this Article or a custom or practice applicable to the letter of credit, to the transfer of a right to draw or otherwise demand performance under the letter of credit, or to the assignment of a right to proceeds of the letter of credit, the creation, attachment, or perfection of a security interest in the letter-of-credit right:

a. is not enforceable against the applicant, issuer, nominated person, or transferee beneficiary;

b. imposes no duties or obligations on the applicant, issuer, nominated person, or transferee beneficiary; and

c. does not require the applicant, issuer, nominated person, or transferee beneficiary to recognize the security interest, pay or render performance to the secured party, or accept payment or other performance from the secured party.

2000 Acts, ch 1149, §71, 187