



Study Guidelines

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Security interests over intellectual property

Introduction and scope of this Study Question

- 1) This Study Question concerns security interests (e.g. pledges, mortgages, equitable, fixed or floating charges) over registered intellectual property rights, specifically patents, trademarks and registered designs. Security interests over other intellectual property rights, such as unregistered designs or copyright, are outside the scope of this Study Question. In these Study Guidelines, references to *IPRs* are limited to patents, trademarks and registered designs, and exclude all other intellectual property rights.
- 2) IPRs represent a significant proportion of the assets of high-tech companies. These companies are increasingly using their IPR portfolios as collateral to secure monetary claims of capital providers in the context of loans, forfeiting¹, venture capital investments, and the like. Such collateral is often critical for the availability and closing of the financial transactions needed to provide sufficient capital resources for company operations.
- 3) Particularly in international financial transactions covering multinational portfolios, the practical use of IPRs as collateral largely depends on the predictability, feasibility, availability and effect of the security interests in the relevant jurisdictions. However, legal regimes significantly vary from country to country.
- 4) Further, the analysis of these issues is governed by the question of the applicable law which also varies from country to country, giving rise to questions of conflicts of laws. Parties (especially creditors) can accordingly be in an uncertain legal position where the financial means provided to an

¹ A financial transaction involving the purchase of receivables by a party who takes on all the risks associated with the receivables but earns a margin.

intellectual proprietary proprietor are not sufficiently secured.

- 5) This Study Question aims to propose a basic degree of harmonization as to the availability and effect of security interests over IPRs in national and international scenarios. The scope of this Study Question reflects the views articulated by many Groups that AIPPI should start exploring this topic focusing on core questions, and reserving further detailed studies to future work, including appropriate Standing Committees according to their terms of reference.

Previous work of AIPPI

- 6) To a limited extent, AIPPI has addressed these issues in the Resolution on Q190 – "Contracts regarding intellectual property rights (assignments and licenses) and third parties" (Gothenburg, 2006), and in the Guidelines for the more recent Question Q241 - Intellectual property licensing and insolvency (Toronto, 2014).
- 7) The Resolution on Q190 considered security interests over intellectual property in the context of contracts regarding intellectual property rights, raising the question whether intellectual property rights can be used to provide security and if so, the formalities required. In that regard AIPPI resolved:
 - 3) *It should be possible to grant security interests over all forms of IPRs. For IPRs for which registers are maintained said security interest should not be effective against bona fide third parties unless registered.*
 - 4) *In the event of a conflict between an earlier unregistered Transaction and a later registered Transaction, the registered Transaction shall have priority over the unregistered Transaction, unless the assignee/security holder in the later Transaction is in bad faith.*
- 8) The Working Guidelines for Question Q241 discussed security interests over intellectual property in the context of intellectual property licenses and insolvency. However, the Resolution on Question Q241 did not address these issues. It was considered that further detailed study was required to reach a well-reasoned position. Relevantly, the Working Guidelines posed the following questions:
 - a) whether the existence of a pledge of or a security interest in intellectual property rights for the benefit of a licensee affects the application of the law in the case of an insolvent licensor (question 4) e)).
 - b) whether the creation of a pledge or a security interest over licensed intellectual property for the benefit of the licensee should be considered for protection in insolvency scenarios (question 11)).

- c) whether a licensee's security interest over the underlying intellectual property rights should restrict in any way a bankruptcy administrator's ability to deal in various ways with an intellectual property license (question 17 d)).

Work of WIPO and UNCITRAL

- 9) Since 2002, the United Nations Commission on International Trade Law (**UNCITRAL**), in particular its Working Group VI, has been working on the topic of security interests in general. In 2007, UNCITRAL adopted the UNCITRAL Legislative Guide on Secured Transactions (**UNCITRAL Secured Transactions Guide**)² and in 2010, a supplement thereto relating to security rights in intellectual property titled UNCITRAL Legislative Guide on Secured Transactions: Supplement on Security Rights in Intellectual Property (**UNCITRAL IP Supplement**)³.
- 10) The UNCITRAL IP Supplement was created in cooperation with the World Intellectual Property Organisation (**WIPO**). In 2008, WIPO distributed to its Member States a questionnaire on security interests over intellectual property. In 2009, WIPO published a summary of results and national responses from 66 WIPO Member States in Annex I to the WIPO Information Paper on Intellectual Property Financing: the WIPO Questionnaire on Security Interests over Intellectual Property (**WIPO Questionnaire**)⁴.
- 11) In 2013 UNCITRAL adopted the UNCITRAL Guide on the Implementation of a Security Rights Registry⁵, and is currently working on finalizing a Draft Model Law on Secured Transactions⁶.
- 12) For the purposes of this Study Question, Groups are invited to study the above-mentioned materials, in particular the national responses in Annex I to the WIPO Questionnaire.
- 13) In particular, the WIPO Questionnaire related to whether and how security interests over intellectual property are regulated by Member States, whether security interests can be recorded on a register, when and how the security rights become effective against third parties, how the priority of competing security rights is determined, whether or not a secured creditor has the right to take action against an infringer and whether security rights include any proceeds realized from the exercise of the intellectual property rights.
- 14) The results of the WIPO Questionnaire can be briefly summarized as follows (although Groups are invited to check whether the national responses contained in Annex I to the WIPO Questionnaire remain accurate for their country). Fractional or percentage figures are with reference to the 66 Member

² http://www.uncitral.org/uncitral/en/uncitral_texts/security/Guide_securedtrans.html

³ http://www.uncitral.org/uncitral/en/uncitral_texts/security/ip-supplement.html

⁴ http://www.wipo.int/meetings/en/doc_details.jsp?doc_id=131002

⁵ http://www.uncitral.org/uncitral/en/uncitral_texts/security/2013Security_rights_registry.html

⁶ http://www.uncitral.org/uncitral/en/commission/working_groups/6Security_Interests.html

States who responded to the WIPO Questionnaire.

- a) More than a third (36%) stated that their intellectual property laws did not address security interests over intellectual property at all (Question 1), and more than a fifth (22%) stated that they had no law in place that would address security interests over intellectual property (Question 2).⁷
- b) On specific issues pertaining to security interests over intellectual property (creation and grant effects on third parties, priority with respect to competing rights of third parties and enforcement), 40% to 65% reported that these are regulated by laws other than intellectual property laws (Question 3).⁸
- c) The majority (67%) reported that they have an intellectual property specific register (*IP Register*) for registration of security interests over intellectual property, there is a register that is not intellectual property specific in 31% of the Member States, and no register at all in 14% of the Member States (Question 4). Of those Member States with an IP Register, the ratio was quite balanced (37% v 26%) between those States in which registration provides priority over all competing parties regardless of their knowledge and those where there is no such effect associated with registration (Question 6).⁹
- d) Regarding the moment at which a security interest over intellectual property becomes effective as against third parties, 40% of Member States required recordal of the security interest in IP Register, 18% required recordal in a register that was not specific to intellectual property, and 29% required no formalities, but only creation of the security interest itself (Question 5).¹⁰
- e) Regarding whether proceeds realized from the exercise of the intellectual property are included in the security right (Question 7), the ratio of Member States responding positively and negatively was very close (41% v 34% respectively).¹¹
- f) In the event the secured intellectual property right is infringed (Question 8), the laws of almost a third of the Member States (31%) allow the secured creditor to bring an action against the infringer alone, whereas the laws of 20% of the Member States permit such an action to be taken only jointly with the intellectual property proprietor, and the laws of a further 28% of the Member States do not permit such an action at all. Where an infringement action of a secured creditor is allowed, slightly over one third (34%) also provide the

⁷ The WIPO Questionnaire on Security Interests in IP, at 131

⁸ *Id.*, at 132

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

secured creditor with the right to claim damages, seek an injunction or both.¹²

- 15) As can be seen from the above summary, the laws of different countries vary significantly. This leads to complications in concluding and executing both domestic and international security transactions involving intellectual property as collateral.
- 16) The UNCITRAL IP Supplement was created on the basis of the WIPO Questionnaire. It contains more than 240 recommendations concerning security transactions in general, and six specific recommendations with respect to security interests over intellectual property.¹³ The Groups are invited to study, in particular, the six specific recommendations in the context of this Study Question.
- 17) Of note, the UNCITRAL IP Supplement states that its key objective is to promote secured credit without interfering with the objectives of laws relating to intellectual property.¹⁴ With respect to the general UNCITRAL Secured Transactions Guide, the UNCITRAL IP Supplement states that the law recommended in the general guide applies to security rights in all types of movable property, including intellectual property, with only limited exceptions.¹⁵ However, it further states that the recommended law does not apply in relation to intellectual property insofar as its provisions would be in conflict with national law or international agreements relating to intellectual property to which the State in question is a party.¹⁶
- 18) Finally, the Annex II to the UNCITRAL IP Supplement contains the decision of UNCITRAL on the adoption of the UNCITRAL IP Supplement, whereby UNCITRAL recommends to all States that they utilize that supplement when revising or adopting legislation in the areas with which the UNICTRAL IP Supplement is concerned.
- 19) The above mentioned activities of UNCITRAL and WIPO highlight the importance of security interests over intellectual property in global financial transactions. AIPPI did not participate in those activities, and nor has AIPPI yet taken an express position on these important issues (other than to the limited extent in Resolution on Q190 and Question Q241 described above). Therefore, in light of the increasing importance and the current discussion on this topic, AIPPI aims to adopt a position and to become an active participant in the debate.
- 20) Furthermore, given the comprehensive and complex nature of the UNCITRAL Legislative Guide on Secured Transactions, a concise proposal for harmonization regarding the key aspects relating specifically to security

¹² *Id.*, at 133

¹³ Recommendations 243-248, The UNCITRAL IP Supplement, at 161

¹⁴ The UNCITRAL IP Supplement, at 21

¹⁵ The UNCITRAL IP Supplement, at 1

¹⁶ *Id.*

interests on intellectual property seems highly desirable.

Discussion

- 21) The WIPO Study lacks specific provisions for security interests over IPRs in various jurisdictions, but highlights the broad variety of different types of security interests generally available in the various countries. German law, for instance, provides for the possibility of creating pledges over an IPR and over the mere right to an IPR (e.g. over existing rights before the actual granting of a patent, trademark or design), as well as *usus fructus*¹⁷, and the assignment of an IPR as security. Such security rights are not available in other jurisdictions. This Study Question therefore aims to explore the various types of security interests over IPRs including their main characteristics.
- 22) Although the WIPO Questionnaire revealed great divergence as to the perfection process (i.e. obligation to record the particular security interest in an official register), this issue has already been addressed in depth by Questions 4 to 6 of the WIPO Study. Accordingly, the particular requirements for creation and perfection of security interests over IPRs are not considered in this Study Question.
- 23) This Study Question specifically addresses the position of the security taker, with regard to their rights and obligations as to the IPR provided as collateral. The WIPO Study indicated regimes that range from no rights at all with respect to enforcement of the IPRs against third parties, to almost equal rights to those of the IPR proprietor, including the possibility of receiving damages and obtaining an injunction against an infringer. With IPRs commonly originating and being granted in multiple jurisdictions, and commonly being provided as a collateral in multiple jurisdictions, a creditor may thus have varying rights as to the ability to preserve the IPR as between those different jurisdictions.
- 24) Furthermore, the position of a creditor according to the law of a particular country directly affects the position of an intellectual property proprietor. In general, the greater the rights of the creditor, the lesser the rights pertaining to the intellectual property proprietor. This Study Question aims to map the extent to which an intellectual property proprietor's exclusive rights are affected by providing its IPR as collateral.
- 25) Finally, there is a question whether security interests over IPRs are governed by the law applicable to the relevant IPRs. It is a complex endeavour to enter into cross-border financial transactions given the differences in laws relating to providing IPRs as collateral. For example, if a Dutch IPR holder and a Chinese creditor enter into a pledge agreement governed by Swiss law, and the pledge relates to Chinese, Dutch and US patents, the respective national laws may prohibit the application of Swiss law to the perfection, effect and realization of

¹⁷ 'Usufruct' in English, being a right given by an owner to someone else to use the owner's property for a limited time.

the pledge. Choice of law agreements, insofar as they are enforceable, may avoid these complications and be a viable option for providing multijurisdictional IPR portfolios as collateral.

- 26) All of these issues, each alone and even more so together, result in significant legal uncertainty, inhibiting the use and acceptance of IPRs as collateral, especially in relation to multinational IPR portfolios.

Questions

I. Current law and practice

You are invited to submit a Report addressing the questions below. Please refer to the 'Protocol for the preparation of Reports'.

You are reminded that IPRs refers to patents, trademarks and registered designs only.

If more than one type of security interest is available under your Group's current law, please answer the questions for each type of security interest, as applicable.

Availability of security rights

- 1) Does your Group's current law provide for the possibility of creating security interests over IPRs?

If yes, please answer Questions 2) to 14) inclusive before proceeding to question 15) and following.

If no, please proceed directly to question 15).

- 2) Are the available types of security interests defined by specific provisions relating to security interests over IPRs or by general commercial law principles (e.g. specific provisions in your Group's patent legislation rather than general commercial provisions that are applicable to tangible personal property as well as to patents)?

- 3) Under your Group's current law, what types of security interests are available for IPRs? In addressing the questions in sub-paragraphs a) to c) below, please specify briefly the main characteristics and differences of the available types of security interests.

a) Does your law provide for security interests which are characterized by the full assignment of the underlying IPR to the security taker? For example, an assignment of the IPR for the purpose of security or authorization to dispose/use fully in the event of default.

b) Does your law provide for security interests that authorize the security taker to realize the security interest only in the event of default? For

example, a pledge over an IPR that authorizes the pledgee to liquidate the pledged IPR in the event of default (but not to otherwise dispose of the IPR).

- c) Does your law provide for security interests that authorize the security taker to use the underlying IPR? For example, *usus fructus* rights that authorize the creditor to use and/or realize proceeds from the exercise of the IPR only during the term of encumbrance. Is any right to use the encumbered IPR conditional upon default of the security provider?
- 4) If more than one type of security interest is available under your Group's current law, what types are commonly used for IPRs? Please also specify if certain types of security interests are exclusively used for certain types of IPRs in your country. For example, patents may commonly be encumbered with pledges, while trademarks may commonly be assigned to the security taker.

Effects of security interests

- 5) Is the security provider restricted in their right to use their IPR after providing a security interest over that IPR? For example, in respect of their right to grant licenses, or the right to use the protected subject matter. Please answer for each available type of security interest.
- 6) May encumbered IPRs be assigned to third parties by the security provider?
- 7) If yes:
 - a) under what conditions may an IPR be assigned (e.g. obligation to obtain consent from the security taker, public notification or registration)?
 - b) does the IPR remain encumbered with the original security interest for the benefit of the security taker?
- 8) What are the rights of the security taker before default (e.g. entitlement to damages, injunctions against infringers, or license fees)?
- 9) Who of the security provider or the security taker is responsible for maintenance and defence of the IPR provided as collateral?
- 10) What are the legal consequences if the underlying IPR expires or is revoked? For example, the security right lapses simultaneously; the creditor has a compensation claim against the security provider.
- 11) Can any of these effects of security interests over IPRs before default be modified by contractual provisions between the parties? If so, which effects?

Applicable law

- 12) Does your Group's current law provide for conflicts of laws as to the availability and effect of security interests over IPR portfolios containing foreign as well as national IPRs?
- 13) Which national law applies as to creation, perfection and effect of security interests over foreign IPRs? For example, where a US patent is provided as collateral in respect of a financial transaction in Europe.
- 14) Can a choice of law provision in a security interest agreement over IPRs overrule the applicable law as to availability and effect?

Additional question

- 15) Regardless of your Group's current law relating to security interests over IPRs, is it possible to create a solely contractual regime for security interests over IPRs (i.e. beside the types of security interests defined by law) that is enforceable between the contracting parties?

II. Policy considerations and possible improvements to your current law

- 16) Is your Group's current law regarding security interests over IPRs sufficient to provide certainty and predictability to the parties?
- 17) Under your Group's current law, is there an appropriate balance between the rights between security takers and security providers? For example:
 - a) are there situations in which the rights of security takers should be limited or extended (e.g. if assignment of an encumbered IPR is possible by the security provider without involvement of the security taker)?
 - b) are there situations in which the rights of security providers should be limited or extended (e.g. if the security taker is authorized to dispose of existing licenses without involvement of the security provider)?
- 18) Are there any aspects of these laws that could be improved? Are there any other changes to your Group's current law that would promote transactions involving IPRs as collateral? If yes, please briefly explain.

III. Proposals for harmonisation

- 19) Does your Group consider that harmonization of laws concerning security interests over IPRs is desirable?

If yes, please respond to the following questions without regard to your Group's current law.

Even if no, please address the following questions to the extent your Group considers your Group's laws could be improved.

Security system regarding IPRs

- 20) Should there be specific provisions regulating security interests over IPRs (i.e. separate from security interests over tangible property) generally?
- 21) If no, should there be general commercial law principles that also apply to IPRs? If not, why?
- 22) What types of security interests should be available as minimum standard in all countries?
- 23) Should the law be applied differently depending on the type of IPR? For example, should patents be encumbered exclusively with pledges, should trademarks be assigned to the security taker for the purpose of security?

Effect of security interests

- 24) Should the security provider be restricted in their right to use their IPR after providing a security interest over that IPR (e.g. in respect of their right to grant licenses, or to use the protected subject matter)? If so, how?
- 25) Should the security provider be able to assign encumbered IPRs to third parties?
- 26) What should the rights of the security taker be before default (e.g. entitlement to damages, injunctions against infringers, or license fees)?
- 27) Should the security provider or the security taker be responsible for maintenance and defence of the IPR provided as collateral?
- 28) What should the legal consequences be if the underlying IPR expires or is revoked (e.g. the security right lapses simultaneously; creditor gains a compensation claim against security provider)?
- 29) Should it be possible to modify these effects of security interests over IPRs before default by contractual provisions?

Applicable law

- 30) Which law should apply as to the availability and the effects of security interests where a foreign IPR is provided as collateral? Why?
- 31) Should a choice of law provision in a security interest agreement over IPRs overrule the applicable law? If yes, why?

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Additional considerations and proposals

- 32) To the extent not already stated above, please propose any other standards your Group considers would be appropriate to harmonize laws relating to security interests over IPRs.
- 33) Please comment on any additional issues concerning any aspect of security interests over IPRs you consider relevant to this Study Question.