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2016 – Study Question (General)

by Sarah MATHESON, Reporter General
John OSHA and Anne Marie VERSCHUUR, Deputy Reporters General
Yusuke INUI, Ari LAAKKONEN and Ralph NACK, Assistants to the Reporter General

Security interests over intellectual property

Responsible Reporter: Ralph NACK

National/Regional Group	Brazil
Contributors name(s)	José Mauro DECOUSSAU MACHADO, Tatiana CAMPELLO LOPES, Nathalia MAZZONETTO, Cândida RIBEIRO CAFFÉ and Karina HAIDAR MÜLLER
e-Mail contact	jmachado@pn.com.br
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I. Current law and practice

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?

yes

Please explain:

There is no specific provision in Brazilian Law on the possibility of creating security over IPRs. In accordance with article 83, III, of the Brazilian Civil Code (Civil Law 10.406/2002) personal rights of proprietary nature and their respective actions are considered movable assets. Intellectual property rights are listed as personal rights of proprietary nature and considered movable by the Brazilian Industrial Property Law. Being that said, as IPRs are considered movable assets for all legal purposes in Brazil, the same securities that apply to any regular movable asset also apply to IPRs.

The Brazilian Industrial Property Law, on the other hand, on articles 59, II and 136, II provides that the Brazilian Patent and Trademark Office will record the limitation or onus on the application or registration over patents and trademarks, respectively. This Law applies to Industrial Designs the same regulations applied to patents. Furthermore, also in accordance with the Brazilian Industrial Property Law the recordals of limitations and/or onus will produce effects with respect to third parties as from the date of their publication in the Industrial Property Gazette.

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)?

yes

Please explain:

In Brazil, the types of security interest over IPRs are governed by General commercial law principles. There are no specific provisions such as patent and trademark legislation, rather than general commercial provisions.

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.

yes

Please explain:

In the event of default of the agreement the security taker will, in principle, have the rights over the IPRs. However, when relating to trademarks, the security taker may not transfer the trademark to its name since Article 128 of the Industrial Property Law requires that the assignee has social object compatible with the product and/or service covered by the application and/or trademark registration. In such circumstances, if the security taker does not have, in fact, compatible social object (this usually happens in the event financial institutions are the security takers), it should assign the trademark property directly to third parties and will never be part of the trademark´s ownership chain.

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).

yes

Please explain:

Yes, the pledge (Article 1431 and following of the Brazilian Civil Code) has this characteristic. It occurs when "*a thing that is given as security for the fulfilment of a contract or the payment of a debt and is liable to forfeiture in the event of failure*" (Oxford dictionary). The difference when compared to usufruct is that the pledge is always related to a specific debt, which, if not paid, may cause the taker to realize the security. The usufruct is usually reserved for family situations, in which the person granting the usufruct wishes to assure a revenue to the person receiving the usufruct.

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?

yes

Please explain:

Yes, the usufruct (Art. 1390 and following of the Brazilian Civil Code) meets this characteristic. It is defined as the "*the right*[http://www.oxforddictionaries.com/definition/english/right#right__28] *to enjoy*[http://www.oxforddictionaries.com/definition/english/enjoy#enjoy__2] *the use*[http://www.oxforddictionaries.com/definition/english/use#use__26] *and advantages of another's property short of*[http://www.oxforddictionaries.com/definition/english/short#short__89] *the* destruction or *waste*[http://www.oxforddictionaries.com/definition/english/waste#waste__28] *of its substance*" (Oxford dictionary). The ownership of the IPR is not transferred but merely the temporary right to use and receive any advantages related to it.

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.

The type of security interest that is commonly used for IPRs is the pledge. However, considering that such matter is still undeveloped in Brazil, it is important to highlight that the usufruct is also used on general operations related to security interests.

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.

yes

Please explain:

Restriction vary according to the type of security interest over the IPR. There are two main security interests provided by Brazilian law, which one can have over IPRs, namely pledges and chattel mortgages. Even though there are cases in which such interests can be imposed by courts or by law, they are mainly contractual by nature, and shall be effected through the registry of the relevant security agreement at the office of the notary public and the annotation to the IPR corresponding registration at the Brazilian Patent and Trademark Office in order to be effective vis-à-vis any third parties.

Even though no specific rules regarding pledges of IPRs are provided by Brazilian laws, it is generally understood that debtors are not allowed to alienate, alter or change the situation of pledged goods, unless there is specific and written authorization from the creditor (though debtors remain invested with property). The Brazilian Criminal Code also provides that the attempt to transfer pledged goods without the consent of creditors may constitute a crime. Again, even though this does not seem to have been specifically targeted by Brazilian courts in IP-related matters, such an attempt could be understood as a crime, especially in cases where an IPR has been transferred in a way that could impair creditors' interest in it.

Besides such restrictions on altering and transferring IPRs, though, unless there are specific contractual provisions to the contrary, the security provider should still be able to use and license its patents, industrial designs and trademarks, as well as receive licensing or other related fees in relation to such rights (provided there is specific provision in this regard), as long as this does not hinder his ability to make the payments for his securitized debts.

As per chattel mortgages (*alienação fiduciária*), which consist in an actual, though temporary, transfer of property (which can then be reverted once the securitized debt has been paid), further restrictions

shall apply. Even though there are no specific rules or court decisions targeting chattel mortgages over IPRs, the Brazilian Civil Code generally provides that even though the security provider may keep the possession of the good for the duration of the mortgage, the property shall, for all effects, be transferred to his creditor.

Thus, unless there are specific contractual provisions to the contrary, the main applicable restrictions to the security provider would be on the right to license or transfer such IPRs, as well receive fees resulting from previous licenses of such IPR. Such rights will, during the term of the mortgage, belong to the creditor. However, the security provider's ability to use the IPR should not be affected.

6) May encumbered IPRs be assigned to third parties by the security provider?

yes

Please explain:

Yes (please revert to our comments regarding the conditions on question 7). Please note that the admissibility of this license must be submitted to the BPTO, which will analyze and admit or not. It is worth mentioning that the assignment of the encumbered IPRs to third parties does not invalidate the guarantee.

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)?

The security provider can assign the encumbered IPRs to third parties with the previous consent of the security taker and the assignee. It is important that assignee be clearly warned that the trademark has a type of limitation and in case of breach of an agreement entered into the other two parties; the ownership of the trademark may have to be transferred.

b) does the IPR remain encumbered with the original security interest for the benefit of the security taker?

yes

Please explain:

Yes, the IPR remains encumbered with the original security interest for the benefit of the security taker. It is important to note that the collateral proceeds the movable assets, such as IPRs.

8) What are the rights of the security taker before default (e.g. entitlement to damages, injunctions against infringers, or license fees)?

The security taker shall have the same rights as if it were the owner of the IP. This means the right to injunctions and other rights to protect the security against the owner or third party interference. As to damages, this really depends on the specific situation. This means that, if the owner of the IP rights does not exercise its rights to damages, the security taker may have legal basis to initiate damages procedures. If the default occurs, security taker shall have the right to sell the IP rights and/or to receive royalties' payments. Once the debt is paid, the proceeds of the sale or the remainder of the royalties must be returned to the debtor/owner of the IP rights. It is also possible that the security taker becomes the owner of the IP rights through an enforcement procedure called "adjudicação" (adjudication). In this case, the security taker actually "purchases" the IP rights with the amount of the debt. If the value of the debt is lower than the value of the IP, the creditor must pay the difference to

become its owner. Usually, the security agreement details all the above, and the inclusion of irrevocable powers for all the steps necessary or convenient for enforcement and foreclosure is recommendable.

9)	Who of the security provider or the security taker is responsible for maintenance and defence of the IPR provided as collateral?

The security provider – as the owner of the IPR provided as collateral – is the responsible for its maintenance and defense.

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.

In case the underlying IPR is depreciated, the security provider should reinforce the collateral or provide another asset as a guarantee. In case the underlying IPR expires or is revoked, the collateral will be subrogated in insurance's indemnity, or compensated for damages in benefit of the security taker.

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?

yes

Please explain:

Contractually speaking the parties may freely modify the provisions since it respects the applicable law to the case. However, as mentioned before, the admissibility of these modified provisions will be subject to the Brazilian Industrial Property Institute-INPI analysis, which may allow or not.

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?

no

Please explain:

Our law does not provide for conflicts of laws as to the availability and effect of security interests **specifically** over IPR portfolios containing foreign as well as national IPRs. However, our law does provide rules involving the applicable law to assets, as well as to security interests involving assets in general, which could include an IPR. In such regard, Decree-law No. 4657 of 4 September 1942 (the "LINDB") provides in its section 8, *caput*, and paragraph º that:

a. **Section 8, *caput*:** The law of the country where the assets is located is the one applicable to qualify the assets and rule about relationships therein related. Hence, according to Brazilian law, the laws where the IPRs have been registered/applied for are the ones applicable to regulate and qualify them;

a. **Section 8, paragraph 2º:** On the other hand, a security interest ("penhor") over an asset shall be ruled by the laws where the person holding the asset is domiciled. When it comes to IPRs, it may be considered that the asset is located in the country where it has been registered/applied. Hence, here again we could construe that the laws of the country where the IPR has been

registered/applied for are the ones applicable for security interests.

The conclusion here is that, although there is not a specific provision for IPRs, we may sustain that Brazilian law provides that the laws of the country where the asset/IPR is located shall be the applicable one, including, here, regarding matters on availability and effect of security interests.

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.

According to Brazilian law, in principle the national law where the IPR is located will be the one to apply as to creation, perfection and effect of security interests. In the example posed, if a Brazilian patent is provided as collateral in respect of a financial transaction in Europe, we could construe that the Brazilian laws would apply.

14) Can a choice of law provision in a security interest agreement over IPRs overrule the applicable law as to availability and effect?

yes

Please explain:

The standard that prevails in Brazil is *locus regit actum*, i.e. the law of the place where the contract is executed determines its extrinsic form. This rule has always been adopted in Brazil, and is enshrined in the doctrine uniformly; according to Amilcar de Castro (1995, p. 517).

The *locus regit actum* rule regarding certain actions - such as, for instance, the purchase and sale of property located in Brazil, for which the Brazilian law requires public deed - the form determined by the Brazilian law is mandatory. For other actions, the form adopted by the local law where the act takes place will be acceptable in Brazil. The doctrine confirms the maintenance of the *locus regit actum* rule, as well as the case law.

Currently, the Introductory Regulation to Brazilian Law provides in art. 9 that the *lex loci contractus* principle or the place where the obligation was established applies to all contracts between present parties. Therefore, there are two elements of connection: (i) the law of the contract location, or (ii) the law of residence of the proponent, i.e. the place where the business proposal originated.

Art. 9 does not provide for the possibility of stipulation to the contrary, banning, therefore, apparently the freedom of choice in the election of the applicable law.

In Brazil, there is great discussion among scholars; so, the subject is not pacified. An alternative is the existence of specific legislation on the subject.

We can rely on the development of specific legislation for real estate and agricultural operations that gave rise to different securities, such as: Real Estate Credit Notes ("CCIs"); Agribusiness Receivables Certificates ("ARCs"), among others, and thus, it regulated said operations.

Thus, if specific legislation is developed for intangibles securitization operations, there will be doubt as to the standard to be applied, which will provide greater legal certainty for the operations and consequently for businesses.

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?

no

Please explain:

No. Although parties would be free to choose among existing security interests provided by local laws and even agree upon them contractually (within the limits provided by law), it is still debatable whether parties could create a different/new regime, strictly contractual, for securing IPRs. A few scholars have been defending such possibility but this is still not a consensus.

II. Policy considerations and proposals for improvements of the current law

16) Is your Group's current law regarding security interests over IPRs sufficient to provide certainty and predictability to the parties?

yes

Please explain:

Yes. The general provisions that provide for real guarantees and collaterals is 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)?

no

Please explain:

No, these situations are not provided by Brazilian Law.

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)?

no

Please explain:

No, these situations are not provided by Brazilian Law.

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.

yes

Please explain:

Yes. We understand that an creation of a specific law and resolution by the Brazilian Industrial Property Institute - INPI in order to regulate administrative procedures, such as shorter periods for registration of the collateral offered; procedures of auction of the collateral in the event of default by the Lender, etc. in regards to this matter would be favorable, in order to clarify each Parties' rights and avoid other

conflicts.

III. Proposals for harmonisation

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

yes

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?

yes

Please explain:

Yes, there should be specific provisions regulating security interests over IPRs. IPRs have a specific law, with very specific rules regarding ownership, transfer of ownership, validity, term of validity, etc. and therefore should have specific provisions regulating security interests over them.

We add the need for the INPI issuing resolutions to establish procedures to regulate administrative procedures, such as shorter terms for transfer of ownership (chattel mortgage).

21)	If no, should there be general commercial law principles that also apply to IPRs? If not, why?

yes

Please explain:

N/A

22)	What types of security interests should be available as minimum standard in all countries?

As minimum standard in all countries, there should be usufruct and pledge.

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?

yes

Please explain:

The Group considers that the law should be applied differently depending on the type of IPR, especially because each IPR have different rules for assignment, ownership, validity term, etc. For example, in Brazil, trademarks could not be assigned to the security taker unless this security taker exercises the same activity as the trademark owner (According to § 1 of Article 128 of our Brazilian IP Law: "*Private legal entities may only request the registration of a mark relating to the activity that they effectively and licitly exercise directly or through undertakings that they control directly or indirectly, such*

condition having to be declared on the actual request, subject to the penalties of the law.")

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?

no

Please explain:

No. The security provider should keep the use of the IPR, which in some cases is necessary to maintain the value and the validity of the right. I.e. if a trademark ceases to be used by the security provider, it may both lose its market value and be subject to a cancelation procedure at the INPI due the lack of use. The correct balance seems to be the use by the security provider with a monitoring right by the security taker.

25)	Should the security provider be able to assign encumbered IPRs to third parties?

yes

Please explain:

As explained above, the security provider can assign the encumbered IPRs to third parties with the previous consent of the security taker.

26)	What should the rights of the security taker be before default (e.g. entitlement to damages, injunctions against infringers, or license fees)?

The security taker should have some rights before the default, such as entitlement to compensation for moral damages and injunctions against infringers.

27)	Should the security provider or the security taker be responsible for maintenance and defence of the IPR provided as collateral?

yes

Please explain:

As already mentioned, the security provider – as the owner of the IPR provided as collateral – is the responsible for its maintenance and defense.

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)?

In case the underlying IPR is depreciated, the security provider should reinforce the collateral or provide another asset as a guarantee. In case the underlying IPR expires or is revoked, the collateral will be subrogated in insurance's indemnity, or compensated for damages in benefit of the security taker.

29)	Should it be possible to modify these effects of security interests over IPRs before default by

contractual provisions?

yes

Please explain:

Yes, the parties should be free to make the necessary adjustments in the security at any time.

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?

The basic principles of private international law are ruled by Decree-law No. 4657 of 4 September 1942 (the "LINDB"), which Article 8 determines that the applicable law to qualify assets and regulate the relationships referring to them, shall be the one of the country wherein such assets are located.

Therefore, in principle, the applicable law as regards availability and effects of security interests over a foreign IPR provided as collateral should be that of the country of registration of such foreign IPR.

Regardless, this general rule should be validated in accordance with the laws of the country of the IPR provided as collateral, as such foreign laws may stipulate different rules as regards this aspect. Moreover, this assessment on applicable law should be analyzed on a case-by-case basis, taking into consideration all factual aspects of the concrete security operation at stake.

31) Should a choice of law provision in a security interest agreement over IPRs overrule the applicable law? If yes, why?

yes

Please explain:

The basic principles of private international law are ruled by Decree-law No. 4657 of 4 September 1942 (the "LINDB"), which establishes that international parties are, in principle, free to agree on the applicable law, provided that the foreign law complies with the following conditions: (i) it must conform to Brazilian public order and good morals; and (ii) it must not infringe upon questions of national sovereignty.

Moreover, Law No. 13.105 of March 16, 2015, new Brazilian Code of Civil Procedure (the "CCP"), contemplates, in its Article 23, an exhaustive list of the subject matters which should be necessarily processed and judged by Brazilian Courts, which does not include security agreements. The CCP further determines, in Article 25, which Brazilian Courts are not competent to process and judge court actions relating to international agreements if there is a choice of law provision electing a foreign Court as competent, if the defendant argues this aspect in its defense.

Therefore, in principle, it is possible for an international security interest agreement over IPRs to contemplate a choice of law provision.

Please bear in mind that any decision rendered abroad must be homologated by the Superior Court of Justice (the "STJ") to enforce any obligation, including decisions rendered in foreign arbitration procedures. Such homologation procedure generally takes from 2 to 12 months, if the decision complies with all procedural requirements of the rendering country. Once homologated, such decision is then forwarded to the Court in the State where the defendant has its headquarters to begin its enforcement procedure, which usually takes 4 months.

Among the main requirements to be complied with, we may point out the following: (a) the parties

must prove that the decision attends to all legal formalities; (b) the decision must be final with no possibility of further revision; (c) it needs to be notarized by a Brazilian Consul in the country where it was delivered and translated into Portuguese by a sworn translator; (d) in addition, the foreign decision cannot be contrary to the Brazilian national sovereignty, public order and local practices. Depending on the subject matter being discussed, such analysis could potentially entail a review of the merits of the decision.

However, it is important to highlight that the CCP allows, in its article 24, that the court action filed before a foreign court does not prevent Brazilian judiciary authorities to process and judge the same as well as related matters and that, considering that the CCP did not come into force until very recently, it is not possible to anticipate if Brazilian Courts may, in the future, consider themselves competent to process and judge matters involving international agreements with choice of law provisions.

Moreover, we highlight that this aspect should be carefully analyzed on a case-by-case basis, taking into consideration all factual aspects of the concrete security operation at stake.

Finally and, although, in principle, it is possible for the parties in an international security interest agreement over IPRs to contemplate a choice of law provision as regards the contractual terms, the applicable law as to availability and effects of security interests over a foreign IPR provided as collateral should be that of the country of registration of such foreign IPR, in view of Article 8 of the LINDB.

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.

Please indicate which industry sector views are included in part "**III. Proposals for harmonization**" of this form:

Summary