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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	Canada
Contributors name(s)	Jason MARKWELL, Marcelo SARKIS, Gervas WALL, Michael CRINSON, Brad WHITE, Christopher VAN BARR, Meghan DUREEN, Jonathan MESIANO-CROOKSTON, Warren SPRIGINGS, James MILLS, Stephanie ANDERSON and Alfred MACCHIONE EX OFFICIO
e-Mail contact	amacchione@mccarthy.ca
Date	02-05-2016

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:
	Yes. In Canada, provincial laws govern how security interests can be created over all types of personal property, which includes IPR.

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:

IPR security interests are governed by commercial law principles. Each province and territory has its own personal property security legislation which creates a registry for personal property security interests, including, IPRs.[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guideline-_-_2016_Study_Question.docx#_ftn1] Except for Quebec, the legislation is largely identical across Canada and it operates to prioritize the rights of registered security holders, non-registered security holders and subsequent purchasers. A security agreement governed by one province's law will be enforceable and registrable in each other provincial jurisdiction except Québec.

Federal IPR-specific registries exist for most types of IPRs, but these registries are problematic for recording security interests. For example, while the government department administering these registries accepts security agreements for registration, it is unclear whether the registration of security interests is actually permitted by the registries' enabling legislation. The generally accepted view is that federal registration likely has no impact on perfecting a security interest, but, out of an abundance of caution, oftentimes clients are advised to register both federally and provincially where possible.[2][#15505350-v1-AIPPI_Milan_Security_Interests_Guideline-_-_2016_Study_Question.docx#_ftn2]

It should be noted that under the federal *Bank Act*, banks are not permitted to take security over a borrower's IPR.[3][#15505350-v1-AIPPI_Milan_Security_Interests_Guideline-_-_2016_Study_Question.docx#_ftn3]

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[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref1] British Columbia: RSBC 1996, c 359; Alberta: RSA 200, c P-7; Saskatchewan: SS 1993, c P-6.2; Manitoba: CCSM c P35; Ontario: RSO 1990, c P-10; Quebec: CQLR c C-3; New Brunswick: SNB 1993, c P-7.1; Nova Scotia: SNS 1995-96, c 13; Prince Edward Island: SPEI 1997, c 33; Newfoundland & Labrador: SNL 1998, c P-7.1; Yukon: RSY 2002, c 169; Northwest Territories and Nunavut: SNWT 1998, c 8.

[2][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref2] Martin Kratz, QC and Kevin Laroche, *Intellectual Property Transactions*, (Toronto: Thomson Reuters, 2016) at 158 [Kratz & Laroche].

[3][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref3] Kratz & Laroche, *supra*, note 2 at 158.

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:

Provinces and territories except Quebec

In each province and territory, except Quebec, legislation recognizes and protects any type of security interest that creates a security interest in substance, regardless of what title or form the security interest takes.[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guideline-_-_2016_Study_Question.docx#_ftn1] In order to receive full protection for an IPR security interest, the parties must execute a security agreement, then "perfect" it, which means registering the security agreement in the appropriate provincial registry.

Two common types of security interests should be highlighted, however. First, a security interest can be taken over all of a borrower's assets, including IPRs, in the form of a general security agreement. Second, a security interest can also be taken over any property, including IPRs, acquired after the security interest is perfected.[2][#15505350-v1-AIPPI_Milan_Security_Interests_Guideline-_-_2016_Study_Question.docx#_ftn2]

Quebec

In Quebec, a security interest can be taken over IPRs through a movable hypothec. Movable hypothecs are generally similar to security interests granted by the provincial personal property security acts and, like security interests taken in other provinces, require a security agreement to be executed and registered in the appropriate registry.

a) Yes. A lender's specific remedies are specified in the IPR security agreement, and parties can agree that liquidation or foreclosure be available remedies for the lender in the event of a borrower's default. [3][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftn3] If a creditor chooses to realize upon the security as a remedy, the IPRs are assigned to the creditor in satisfaction of the security provider's debt.

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[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref1] For example, see the Ontario *Personal Property Security Act*, RSO 1990, c P-10 at s 2(a): <http://canlii.ca/t/52kk7[http://canlii.ca/t/52kk7] >.

[2][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref2] Kratz & Laroche, *supra* note 2 at 155.

[3][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref3] For example, see Ontario's *Personal Property Security Act*, RSO 1990, c P-10 at sections 63 and 65.

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. As discussed above, parties to a security agreement may choose the specific remedies available to the lender in the security agreement.

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, upon default. Where a borrower defaults, provincial legislation permits the lender to delay the disposition of all or part of the IPR for a commercially reasonable amount of time in order to maximize the IPR's value. In certain circumstances, the lender can appoint a receiver to manage the IPR on the lender's behalf during this time. A commercially reasonable amount of time depends on the circumstances, and such a period can be lengthy.[1][#15505350-v--AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftn1]

[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref1] Kratz & Laroche, *supra* note 2 at 162.

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 most typical type of security interest used for IPRs is the general security agreement, where the borrower agrees to provide the lender with security over all of the borrower's assets. The scope of the general security agreement depends on how it is drafted. Parties must ensure the agreement is drafted broadly enough to cover each type of IPR the parties intend to include.

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:

As the security agreement can take any form, the borrower can agree to restrict their use of their IPR in any type of security agreement. For example, the borrower often agrees not to assign or license the IPR. In the case of a security agreement for after-acquired property, the borrower often is required to take the necessary steps to register and protect any new IPRs he creates or acquires after the security agreement has been executed. A security agreement can also require the security provider to cease using the IPR in the event of the security provider's default.[1][#15505350-v--AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftn1]

[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref1] Kratz & Laroche, *supra* note 2 at 150.

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

yes

Please explain:

There are no provisions in any of the six federal intellectual property acts (the *Patent Act*, the *Copyright Act*, the *Trade-marks Act*, the *Industrial Design Act*, the *Integrated Circuit Topography Act* and the *Plant Breeders Rights Act*) that restrict the transfer of encumbered IPRs. As such, encumbered IPRs may be assigned in the same circumstances that other types of encumbered property may be assigned—the ability to assign an encumbered IPR will be dependent on the terms of the security agreement.

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)?

In general, an encumbered IPR will remain encumbered subject to certain filing and/or registration requirements on the part of the security taker.[1][#15505350-v--AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftn1] However, parties may include provisions in security agreements that limit the ability of the security provider to assign the IPR.

[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref1] See e.g. Personal Property Security Act, R.S.O. 1990, c. P.10, s. 48.

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

yes

Please explain:

Three of the six federal intellectual property acts contain provisions stating that an unregistered assignment is void against a subsequent assignee without notice of a previous registered assignment.[2][#15505350-v1-AIPPI_Milan_Security_Interests_Guideline-_-_2016_Study_Question.docx#_ftn2]

The case of a potential conflict between a grant of a security interest in one of these three types of IPRs that is registered in a provincial database for security interests and a subsequent “without notice” assignment on a federal database has not yet been decided. As such, some find it prudent to register a security interest in an IPR both under the relevant provincial secured transaction registry and the

relevant federal intellectual property registry.

Other than possibly in the above situation, an IPR encumbered with a security interest that has satisfied the requirements of the relevant provincial secured transaction legislation should remain encumbered after a subsequent assignment.[3][#15505350-v--AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftn1] However, there is very little jurisprudence on this issue.

[2][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref2] *Patent Act*, s. 51; *Copyright Act*, s. 57(3); *Plant Breeders Rights Act*, s. 31(3)

[3][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref3] For example, if a security agreement involving an IPR of a security provider located in British Columbia is registered under the *Personal Property Security Act* of British Columbia, see *Contech Enterprises Inc. v. Vegherb, LLC*, 2015 BCCA 99.

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

Before default, the security taker is not entitled to damages, injunctions against a security provider or against infringers, or licence fees. In Canada, the security taker is only able to realize the security interest in the event of default. As such, the security taker cannot enforce its rights before default. For example, if the intellectual property subject to the security interest is set to lapse or become abandoned, or is being infringed by a third party before default, the security taker is unable to take action to preserve the value of its security.

It should be noted that security takers are also able to take security in IPR-associated collateral e.g. royalties (in which case the collateral is accounts receivable).

However, as with the IPR, the security taker cannot realize the security interest until default.[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guideline-_-_2016_Study_Question.docx#_ftn1]

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[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref1] *Ontario Personal Property Security Act*, RSO 1990, c P 10, s 61(1); *British Columbia Personal Property Security Act*, RSBC 1996, c 359, s 57(2); Law Commission of Canada, *Leveraging Knowledge Assets: Reducing Uncertainty for Security Interests in Intellectual Property* (Minister of Public Works and Government Services, 2004) at 19-20.

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

Where the security provider owns the IPR, the security provider is responsible for the 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.

If the IPR expires or is revoked before the security taker tries to enforce its rights on default, the consequence is that the security taker's rights are unenforceable. The limited legal term in IPRs, such as a patent or industrial design, often poses a challenge to valuation in secured transactions.[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guideline-_-_2016_Study_Question.docx#_ftn1]

Subject to the provisions of a security agreement (as described in question 11), if the IPR has been fully and finally revoked, then the security taker no longer has any rights as the underlying collateral no longer exists.

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[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref1] Law Commission of Canada, *Leveraging Knowledge Assets: Reducing Uncertainty for Security Interests in Intellectual Property* (Minister of Public Works and Government Services, 2004) at 15-16.

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:

The law in Canada contemplates freedom of contract with respect to security agreements.[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guideline-_-_2016_Study_Question.docx#_ftn1] Provided that the security agreement satisfies the evidentiary requirements of the applicable provincial legislation, i.e. the agreement contains a description of the collateral sufficient to enable it to be identified and the security provider signs the security agreement, the parties may draft the agreement as they choose. This includes representations, warranties and covenants from the security provider concerning the preservation of the collateral.

For example, security agreements typically include covenants that the security provider will maintain the intellectual property such that the registrations and applications are in good standing. Any failure on the part of the security provider to maintain the registrations and applications in good standing would result in a claim for breach of contract. Moreover, by defining the events of default to include a failure by the security provider to perform or comply with any covenant, such as the failure to maintain the registrations and applications in good standing, or if any representation or warranty is materially untrue, the security taker is able to mitigate some of the effects addressed in questions 8 to 10.

It should be noted that the parties to the security agreement are not permitted to waive or vary certain rights of the security provider such as the reasonable notice doctrine, which requires that the security provider is given "some notice on which he might reasonably expect to be able to act".[2][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftn2] As explained in *Lister, supra*, "[f]ailure to give such reasonable notice places the debtor under economic, but nonetheless real duress, often as real as physical duress to the person, and no doubt explains the eagerness of the courts to construe debt-evidencing or creating documents as including in all cases the requirement of reasonable notice for payment".[3][#15505350-v--AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftn3]

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[1][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref1] See e.g., the Ontario *Personal Property Security Act*, RSO 1990, c P 10, s 9; Ronald CC Cuming, Catherine Walsh & Roderick J Wood, *Personal Property Security Law* (Toronto: Irwin Law, 2005) at 194.

[2][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref2] *Ronald Elwyn Lister Ltd v Dunlop Canada Ltd*, [1982] 1 SCR 726 at 746, citing *Massey v Sladen* (1868), LR 4 Ex 13 at 19) (Ronald CC Cuming, Catherine Walsh & Roderick J Wood, *Personal Property Security Law* (Toronto: Irwin Law, 2005) at 524.

[3][#15505350-v1-AIPPI_Milan_Security_Interests_Guidelines_-_2016_Study_Question.docx#_ftnref3] [1982] 1 SCR 726 at 746.

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?

yes

Please explain:

But not explicitly. The validity and perfection of security interests are dealt with under provincial laws, which include a conflict of laws provision. Under that provision, these matters are governed by the laws of the security provider’s location, as defined. Thus, a security provider outside of Canada may include Canadian IPRs in a grant of a security interest. The security interest and any assignment to realize on security will be recordable under those IP statutes that require recordation of assignments.

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.

The law of the security provider’s location will apply. Some Canadian IP statutes have recordation requirements for assignments. It is conceivable those requirements may result in a conflict between a security interest perfected before, but recorded after, an assignment to a third party. However, the effect of registering a security interest in foreign IPR is unclear in the law.

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

no

Please explain:

Not as against third parties. The parties can chose the law for the interpretation of the agreement and dispute resolution between them, but this will have no effect on priorities as against third parties.

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?

yes

Please explain:

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:

Generally yes, however, the interaction between provincial and federal registries for security interests is not always clear. As a result, it would be preferable if IPR statutes excluded security interests specifically or if legislation was enacted to clarify the role of security interests.

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)?

yes

Please explain:

Generally, yes. However, again, the registration of security interests under federal registries needs to be clarified. CIPO will register a security interest against any registered IPR, but this registration has no effect on ownership or subsequent registrations by CIPO against the IPR.

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)?

yes

Please explain:

Legislation requiring consent of registered security holders to subsequent assignment could provide additional protection to lenders and thus make the use of IPRs as collateral more attractive.

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:

See answer to Q. 17, *supra*.

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:

Possibly. In Canada there is no legislative protection of licensees on assignment of IPRs. As such, when IPRs are used as collateral in a security agreement and the borrower defaults, it is unclear what happens vis a vis any third party IPR licence holder.

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

yes

Please explain:

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

IPR rights should not be excluded from transactions as charges of assets when a security provider is looking to borrow funds.

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?

no

Please explain:

No, under Canadian law it is not advisable to assign a trademark for the purposes 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?

no

Please explain:

No. It should be decided based on the contractual agreement between the parties.

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

yes

Please explain:

Yes, it should be subject to the contractual agreement between the parties.

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

It should be decided based on the contractual agreement between the parties.

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

yes

Please explain:

The security provider should be responsible for maintenance, unless there is a contractual provision where the security taker is responsible for maintenance and/or defence of the IPR with notice to the provider.

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)?

The consequences should vary depending on the reason why the underlying IPR expired and should be subject to the contract between the provider and taker.

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

yes

Please explain:

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 law that applies to security interests generally. The law in the security provider's jurisdiction should apply by default, subject to an agreement to the contrary between the parties (regardless of the location of the IPR). As against third parties, the law in the jurisdiction of the security provider should always apply. This is consistent with the current state of the law in Canada and provides certainty for third parties in terms of interest claims and priorities, etc.

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

yes

Please explain:

Yes, a choice of law provision should overrule the applicable law where that is the parties' intention in the contract unless there are mitigating factors. The choice of law provision, however, should only apply to contracting parties and not against third parties.

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.

N/A

33)	Please comment on any additional issues concerning any aspect of security interests over IPRs you consider relevant to this Study Question.

N/A

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

Only private IP professionals were consulted.

Summary

Canada is a federal state. Issues of creation, validity, and priority of security interests are within provincial jurisdiction. Intellectual property is primarily within federal jurisdiction.

The federal IP statutes do not address security interests specifically, but the *Patent Act*, the *Copyright Act*, the *Plant Breeders Rights Act*, and the *Industrial Design Act* allow assignments to be recorded. There is no such requirement in the *Trademarks Act* for registered or unregistered trademarks. Nevertheless, the Canadian Intellectual Property Office (CIPO) will record a security interest against any intellectual property right.