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2016 – Study Question (General)

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Security interests over intellectual property

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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:

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:

Available types of security interests are defined by general civil law principles that are applied among others to IPRs. In addition there are some specific provisions regarding security interests in various Acts on IPRs (Principles of Legal Regulation of Industrial Property Act^[1], Patents Act^[2], Trade Marks Act^[3], Industrial Design Protection Act^[4]). The relevant laws were amended in 2009 which have brought along changes in security interests over IPRs

Footnotes

1. [^ Available: https://www.riigiteataja.ee/en/eli/512112013013/consolide](https://www.riigiteataja.ee/en/eli/512112013013/consolide)
2. [^ Available: https://www.riigiteataja.ee/en/eli/527012015002/consolide](https://www.riigiteataja.ee/en/eli/527012015002/consolide)
3. [^ Available: https://www.riigiteataja.ee/en/eli/518112013005/consolide](https://www.riigiteataja.ee/en/eli/518112013005/consolide)
4. [^ Availabe: https://www.riigiteataja.ee/en/eli/521012015002/consolide](https://www.riigiteataja.ee/en/eli/521012015002/consolide)

- 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:

As mainly general civil law principles are applied regarding security interests over IPRs then there seems to be some disagreement among scholars whether some types of security interests are actually applicable over IPRs. These issues are addressed under following descriptions of security interests:

a) Estonian law provides registered security over IPRs which is most common type of security. Article 297 (1) of the Law of Property Act^[1] explicitly states that a patent, trade mark, industrial design, utility model which is entered in a register the data of which are public and maintenance of which is regulated pursuant to the procedure provided by law may be encumbered with a registered security. In case of registered security the security taker has the right to satisfaction of the claim out of the IPR, unless the claim is appropriately performed. The registered security does not provide the security taker rights to dispose or use the IPR in any other way. Also the security taker has no right on license fees etc. Registered security is created by making respective entry in the register of IPR.

Footnotes

1. [^ Available: https://www.riigiteataja.ee/en/eli/501072015002/consolide](https://www.riigiteataja.ee/en/eli/501072015002/consolide)

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:

Estonian law allows assignment for security and although IPRs are not specifically mentioned, it is in principle applicable also in case of IPRs. The relevant law is Law of Obligations Act^[1] and regulation regarding assignment of rights (Art 164 etc) is applied.

Footnotes

1. [^ Available: https://www.riigiteataja.ee/en/eli/528032016012/consolide](https://www.riigiteataja.ee/en/eli/528032016012/consolide)

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:

Estonian law allows security interests over rights (Art 314 etc of the Law of Property Act). The regulation does not specifically mention IPRs and there seems to be conflict between the regulation regarding security interests over rights and specific provisions regarding security interests in the Acts on IPRs (Principles of Legal Regulation of Industrial Property Act, Patents Act, Trade Marks Act, Industrial Design Protection Act). As there is no established court practice in this question, a position that it is not applicable to IPRs is taken regarding the answers to subsequent questions.

- 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 common type is registered security over IPRs. There are no differences regarding securities applicable to patents, registered trademarks or designs.

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:

Restrictions regarding use applicable to security provider:

a) In case of registered security according to the general rule the owner of the IPR maintains its rights to dispose and use the IPR and only the Trade Mark Act provides additional restriction according to which the trademark owner cannot surrender the trademark^[1].

Footnotes

1. [^] *Trade Marks Act*, Available: <https://www.riigiteataja.ee/en/eli/518112013005/consolide>

b) In case of assignment for security the parties are free to decide the conditions and therefore it depends on the agreement of parties to which extent the security provider maintains the rights to use IPR.

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

yes

Please explain:

In case of registered security, yes.

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 case of registered security:

In case of trademark and design the respective laws^[1] require written consent from the security taker. There is no such requirement regarding assignment of patents in the Patent Act.

Footnotes

1. [^] *Industrial Design Protection Act. Available: <https://www.riigiteataja.ee/en/eli/521012015002/consolide>*

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

yes

Please explain:

The IPR remains encumbered with the original security interest. According the respective regulation a security is deleted from the register upon termination of the claim secured by the security or if the security taker surrenders the security^[1]

Footnotes

1. [^] *Principles of Legal Regulation of Industrial Property Act, Art 31 (2). Available: <https://www.riigiteataja.ee/en/eli/512112013013/consolide>*

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

In case of registered security the rights of the security taker are limited to obtain satisfaction of the claim in the expense of the IPR and there are no rights before default.

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

The respective regulation does not provide explicit obligation of the security provider to renew or defend the IPR provided as collateral. There is a general obligation of the IPR owner not to decrease the value of the encumbered IPR or damage the rights of the security taker in any other manner, except if this occurs as a result of regular management.^[1]

Footnotes

1. [^] *In case of registered security the applicable law is Property Act that refers to Law of Maritime Property Act and Art 23 of the latter regulates the obligations of the owner.*

- 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 underlying IPR expires or is revoked and therefore deleted from the respective register then this does not automatically bring along extinguishment of the security. A registered security does not extinguish upon deletion of the pledged object from the register unless otherwise provided by law.^[1] Respective IPR laws do not provide such exception. The registrar has an obligation to notify the security taker immediately of deletion of the IPR from the register. This obligation serves the purpose to enable the security taker to use all possible measures to protect its rights. These measures should be agreed.

Footnotes

1. [^] [Art 299 1 \(2\) of Law of Property Act.](#)

- 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 effects of security interests over IPRs before default can be modified by contractual provisions between the parties, e.g. obligation to maintain the registration, consequences of failure to maintain the registration etc.

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:

Estonian current law does not include specific provisions regarding conflict of laws as to the availability and effect of security interests over IPR portfolios containing foreign as well as national IPRs. However, according to the general rule intellectual property and the creation, content, extinguishment and protection thereof shall be governed by the law of the state for the territory of which protection of the property is applied for^[1]. Therefore it could be concluded that the law of the state where IPR is registered is applied regarding the availability and effect of security interests.

Footnotes

1. [^] [Art 23 of Private International Law Act. Available: https://www.riigiteataja.ee/en/eli/514032016002/consolide](https://www.riigiteataja.ee/en/eli/514032016002/consolide)

- 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 state where IPR is registered is applied regarding the availability and effect of security interests.

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:

Choice of law provisions in a security interest agreement over IPRs do not overrule the applicable laws as to the availability and effect of security interest.

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:

In principle it is possible to create a solely contractual regime for security interests over IPRs enforceable between the contracting parties on condition that it does not conflict with any regulation that is obligatory, i.e. parties cannot upon agreement decide differently.

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:

The Estonian current law can be considered more or less sufficient to provide certainty and predictability to the parties regarding registered security over IPRs. The law and existing practice is not so clear regarding applicability of other security interests to IPRs.

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:

Under the Estonian current law there are situations in which the rights of security takers should be harmonised, i.e. in case of trademark and design the respective laws require written consent from the security taker for assignment but there is no such requirement regarding assignment of patents.

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.

yes

Please explain:

In practice it has been problem that in case of registered security the state fees for entering a security in respective IPR register are considered high and this has proved to be obstacle for using IPRs for security interests. Also as it is quite common to register trademark, design and patent "families", it is very difficult to estimate the exact value of each registration and therefore a security covering several registrations would be favourable, but is not allowed in Estonian law.

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:

Estonian group considers harmonization of laws regarding security interests over IPRs desirable. Security interests over IPRs can be regulated by general provisions applicable also e.g. in case of tangible property, but (a) there should be clear reference in the provisions which types of security interests are applicable in case of IPRs (b) there should be additional IPR specific provisions either in the general regulation or in the specific IPR Acts.

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

yes

Please explain:

If there are no specific provisions regulating security interests over IPRs generally, then there should be general commercial law principles that apply also to IPRs.

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

The minimum standard should be registered security regarding all types of registered IPRs.

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:

The Estonian group sees no practical benefits for or legal necessity to apply law differently depending on the type of registered IPR.

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:

In general the security provider should not be restricted in their right to use their IPR after providing a security over that IPR. The security taker is quite often not interested in actually using the IPR, but the non-use of an IPR can have different consequences, including loss of rights.

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

yes

Please explain:

The security provider should be able to assign encumbered IPRs to third parties on condition that this does not affect the validity of security interest over the IPR and the interests of security taker are not harmed.

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

If the security provider should not be restricted in their right to use (answer to question 24) then the rights if the security taker before default should be related to maintaining the registration in case the security provider fails to renew IPR or IPR is surrendered.

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

yes

Please explain:

Mainly the security provider should be responsible for maintenance and defence of the IPR provided as collateral, but there should be a mechanism for the security taker to protect its interests regarding existence of the IPR.

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 legal consequences if the IPR expires or is revoked should include the right of the creditor to

request additional security to replace the expired or revoked IPR.

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

yes

Please explain:

It should be possible to modify the effects of security interests over IPRs before default by contractual provisions, but only in limited extent to ensure certainty and predictability for parties as well as to third persons.

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 of the state where IPR is registered should be applied regarding the availability and effect of security interests.

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

no

Please explain:

Choice of law provisions in a security interest agreement over IPRs should not overrule the applicable laws as to the availability and effect of security interest.

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.

No other considerations.

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

No other comments.

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

Summary

It is sufficient if security interests over IPRs are mainly regulated by general civil law provisions

(applicable also to other types of objects), but due to the specific nature of IPRs special provisions are needed. A similar approach to all registered IPRs regarding applicable security interests and legal regulation should be preferred in order to provide certainty and predictability for the parties as well as third persons. Also a clear understanding of parties' rights and obligations regarding renewal, surrender and revocation of IPR should be defined. Provided types of security interests should take into account registration of IPR "families" and difficulties to estimate the exact value of each registration, and therefore allow security interest over several registrations.