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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:

German law does provide for the possibility of creating security interests for the three categories of intellectual property under discussion – namely patents, trademarks and registered designs.

Section 15 of the German Patent Act (PatG, Patentgesetz) states:

(1) The right to the patent, the entitlement to the grant of the patent and the right deriving from the patent shall devolve upon the heirs. Their rights may be transferred to others with or without limitation.

As such, the German Patent Act allows for the transfer of patent rights and therefore enables the creation of security interests, for which the transfer of patent rights to a new owner must be possible.

Provision for the transferability of trademark rights is made by Section 27 of the German Trademark Act (MarkenG, Markengesetz):

(1) The right established by the registration, the use or the fact of it being a well-known trade mark may be transferred or passed to others for all or for a part of the goods or services for which the trade mark enjoys protection.

Not only may the rights to a registered mark be transferred but also those for well-known marks or marks obtained through use.

The German Registered Design Act (DesignG, Designgesetz) also allows for the transfer of rights in Section 29:

(1) The right in a registered design may be assigned or transferred to other persons.

It can therefore be seen that all intellectual property rights under discussion may be transferred to third parties, which is vital for the creation of security interests.

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:

There are relatively few specific provisions in the German Patent, Trademark and Registered Design Act that address and define the creation of security interests from IPRs. Under German law transferability is a general requirement of any security right in any right (cf. Section 1274 of the German Civil Code (Bürgerliches Gesetzbuch, BGB)). Accordingly the sole requirement is that the IPRs are transferable to other parties – thereafter the creation of security interests is governed by general commercial law principles, as laid out in the BGB. As the transferability of IPRs is already governed by the Patent, Trademark and Registered Design Act, intellectual property may be treated like any other moveable property and used in the creation of security interests accordingly.

Whilst the Patent Act does not contain any explicit reference to the creation of security provisions, the German Trademark and Registered Design Act do address this slightly more specifically, because they have undergone reform and are more closely tailored after the European Union IP acts. Section 29, Trademark Act states that the right to a trademark may be pledged (“verpfändet”) or made the subject of another right in rem. Furthermore, the right to a trademark may be the subject of measures for forced execution. The same applies to registered designs and is detailed in Section 30 of the Registered Design Act.

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:

German law recognizes at least two types of securitization for IPRs: the Security Assignment (Sicherungsabtretung) and the Pledge (Verpfändung). A similar result may be achieved by a so-called Security License (Sicherungslicenz). However a license is not a right in rem in the meaning of the above-mentioned Section 29, Trademark Act and Section 30, Design Act, but separately regulated by

Section 30, Trademark Act and Section 31 Design Act respectively.

The full assignment of an IPR to the security taker as a Security Assignment may be realized under German law. Whilst the explicit concept of a Security Assignment is not codified within German law, it is nonetheless well established practice. The law recognizes the regular transfer of a right in rem and the binding effect of this transfer brought about through intent and agreement between the parties (Sicherungsabrede). The German Trademark and Registered Design Act explicitly state that these rights may be realized in rem, whereas the Patent Act only indirectly accounts for this by reference to the transferability as such. The IPR in question is transferred to a third party according to Sections 398 and 413 BGB. In fact, any right that may be transferred to another party may also be the subject of a Security Assignment, as long as the right is clearly identified or sufficiently identifiable.

The transfer of IPRs may be recorded in the register maintained by the DPMA (Deutsches Patent- und Markenamt) according to Sections 28 and 29 of the DPMAV (Verordnung über das Deutsche Patent- und Markenamt). If an IPR is to be transferred and recorded in the register (whether for a pledge or any other kind of security) then the necessary proof is also to be submitted. This must include the signature of the current IPR owner or their representatives and a statement to the effect that they agree to the transfer, or documents from which it is clear that the transfer is to take place.

Whilst the transfer of this right may be recorded in the register, it is generally accepted that this is not necessary in order for the transfer to be valid. However, only the party recorded in the official register has procedural standing to bring any action before the DPMA,

Furthermore, whilst full assignment of rights to the Creditor gives a large amount of control, the payment of fees and liability for claims from third parties also becomes the Creditor's responsibility.

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:

A pledge may be created on an IPR (or indeed any right) according to BGB Section 1273. Furthermore, according to BGB Section 1274, the transfer of the right must occur in order for the pledge to be permissible.

The Pledgee (Creditor) may not use the obtained IPR, unless this is outlined in the pledging agreement (Section 1273 II BGB, Section 1213 BGB). Otherwise, the Pledgee may only take possession of the IPR. In the event of default, the Pledgee may sell the IPR according to Sections 1273 II and 1228 BGB, which is carried out by public auction. This in practice is quite complicated, costly and calculation of the market value of a patent is not a simple task. It ought to be mentioned however, that parties may explicitly arrange in a contract that the outcome upon default may be different – for example, that the right is assigned permanently to the creditor.

This rule applies to patents, trademarks and registered designs, whereby the Trademark and Registered Design Act make it clear that it is permissible to create pledges on trademarks and registered designs. Once the rights to a patent, trademark or a registered design have been transferred, they are legally treated like any other moveable property.

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:

German private law provides for *usus fructus* in Section 1030 BGB. According to this provision anything can be encumbered in such a way that the person for whose benefit the encumbrance is made is entitled to realize the proceeds of the thing. This is also applicable to rights. However, it is rarely used because the scheme provided by the BGB is not very flexible. This on the one hand concerns the question which rights are actually granted to the usufructuary (no restrictions are allowed) and on the other hand the further disposal of the usufructuary (non transferable).

In practice the more flexible scheme of licences are thus used instead of usufruct.

Although licenses are not in rem rights in the sense of this question, it may be worth mentioning that Section 15 II of the German Patent Act specifies that the right to the patent and the right deriving from the patent may be entirely or partly the subject of exclusive or non-exclusive licenses. An exclusive license entitles only one party to exercise the rights stipulated in the license. As such, issuing an exclusive license as a security license (“Sicherungslizenz”) can be one way of securitizing patent rights, especially as sub-licenses may be issued by only the holder of an exclusive license. Without the ability to issue sub-licenses, it becomes more difficult for the holder of the license (the Creditor) to recover what they have lent. The permitted use and realization of proceeds from the exercise of the rights, as well as the term of the license, are stipulated in the license agreement. Even the patent owner may give up his right to the patent.

With regard to trademarks and registered designs the creation of licences is provided for in Sections 30 and 31 of the Trademark and Registered Design Act respectively.

An appealing aspect of a security license is that it may be made dependent on location, timeframe or selected subject-matter of the IPR itself. As such, it may not be necessary that the Licensor gives up all rights, in all places, for the entire duration of the IPR.

However, it must be noted that this scheme can be disadvantageous to the Licensor, because a license grants the licensee (Creditor) an additional right that goes beyond the purpose of the security interest.

- 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.

Whilst several types of security interest are available, Security Assignments appear to be used more widely for the securitization of IPRs. Enforcement may be carried out via a straightforward sale, in contrast to a pledge which is sold via public auction – unless the IPRs have a defined market value, which is rarely the case. The process of assignment itself is also relatively straightforward – a simple agreement that sufficiently describes and identifies the involved rights is sufficient to be legally binding.

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:

In case of a Security Assignment, the security taker obtains full legal ownership. This is only restrained inter partes by the parties' stipulation in the agreement governing the Security Agreement which may include the scope of utilization of the IPR. In general, the security provider obtains will license back the right to use its former IPR in the ordinary course of business. It depends on the negotiation between the parties, whether the security provider retains the right to grant licenses.

The Pledge of an IPR does neither effect the ownership nor any depending rights. The security provider retains the IPR and the right to use it. Therefore, the security provider is not restricted in the use of the IPR. According to Section 1276 BGB the security provider is prohibited from extinguishing the pledged right by an act of law or from making any change to the right in question that might compromise the security interest without the consent of the security taker. However, if the parties have not agreed upon specific provisions it is controversial whether or not the grant of a (even exclusive) license requires consent of the security taker. But even insofar as such consent is required it is generally acknowledged that a licence granted without such prior consent will yet take full legal effect.

If a Security License has been granted it will typically be an exclusive license and therefore only the security taker is entitled to grant further licenses. Besides, as the security provider remains the owner of the IPR there are no restrictions in the use as far as not otherwise agreed upon (e.g. the security provider may by means of a truly exclusive license give up his right to exploit the IPR).

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

yes

Please explain:

In case of a Security Assignment the Security Taker obtains full legal ownership of the IPRs, which comprises the ability to transfer the right. By contrast the security provider is no longer entitled to assign the IPRs to third parties. If the security provider nevertheless assigns the IPRs such an assignment is null and void, because he lacks the power of disposition. This also applies even if the assignee was not aware of the security interest, because German law does not recognize a bona fide purchase of IPRs.

In case of a Pledge the security provider is still entitled to assign the IPRs to third parties as far as no further provisions have been stipulated in the security agreement. However the pledge will remain in place and burden the new owner as it would have the former.

A Security License – as any licence – is not an impediment for the assignment of the IPRs.

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)?

German law does not stipulate specific requirements for the assignment of IPRs over which security interest have been provided. In case of a Pledge or a Security License the parties may agree upon

specific provisions in the respective security agreements (e.g. the consent of the security taker) to avoid a transfer. Such restrictions however do not have any binding effect on third parties.

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

yes

Please explain:

In case of a Pledge the IPR remains encumbered, even if the assignee was not aware of the security interest.

The same applies to a Security License, even if the assignee was not aware of it, by virtue of the rules on succession in title (Section 15 III Patent Act, Section 30 V Trademark Act).

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

In addition to the owner of the IPR, the pledgee has standing to sue against infringers for an injunction or damages or any other remedies normally available to the owner (Sections 1273 II, 1227 BGB), at least if the infringement compromises the pledge, which will in general be the case. However, any damages awarded will be collected by the owner, and the pledgee will only acquire a security in the damages.

Unless otherwise specified in the pledge, the pledgee does not have any rights to the proceeds realized from the exercise of the IPR, such as license fees. Also, the pledgee does not have the right to use the IPR himself.

In the case of a security assignment, the rights of the assignee depend on the security agreement. Where the security agreement is silent, the security taker enjoys the full rights like any regular owner of an IPR.

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

In the case of a pledge, unless otherwise agreed, the security provider (the owner of the IPR) is responsible for maintenance and defence. However, at least for a German IPR, the security taker retains the possibility to make a maintenance payment himself to avoid that the IPR expires.

With regard to security assignments, the opposite is the case: unless otherwise agreed, the security taker is responsible for maintenance and defence, but the security provider has the possibility to make the maintenance payment himself.

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, the security right becomes ineffective. There are no specific rules about damages claims in such a case.

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:

All of the effects discussed in the answer to question 8) can be modified by contract, i.e., in the case of a pledge, it can be agreed that the security taker has no standing to sue against infringers, that the security taker has a rights in the proceeds realized from the exercise of the IPR, or that the security taker has the right to use the IPR himself. In the case of a security assignment, full standing to sue can be transferred to the security provider if the security provider has at least a non-exclusive license to the IPR.

In the case of a pledge, it can also be agreed that the security taker is responsible for the maintenance of the IPR, or that the security taker has to support the security provider in the defence of the IPR (and vice versa in the case of a security assignment). However, the defendant in a nullity or cancellation action against the IPR is always the registered owner.

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:

German international private law to date does not contain a written conflict of laws rule on the law applicable to intellectual property. But – leaving aside the controversy on copyright law – it is unanimously acknowledged that the law of the country for which protection is sought (lex protectionis) does not only govern the question of whether and under which requirements an IPR can be obtained, but also whether they are transferable and which other types of contractual exploitation are available. Accordingly, the availability of security interests regarding IPRs granted by the German Patent and Trademark Office is governed by German law. As mentioned above the relevant rules on transferability may be found in Sections 27 et sequ. Trademark Act, Sections 23 et sequ. Design Act and Section 15 Patent Act. This conflict of laws rule is similarly applicable if it points towards the law of a foreign country. A German court therefore will apply the law of the country for which protection is sought to the question of availability and effects of security interest, e.g. U.S. law to a U.S. patent and French law to a French trademark.

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.

A closer look at a grant of security reveals that there are two different levels that interact. The first level is the contract in which the parties agree on granting a security and the conditions of such grant. It is a genuine question of contract law. The relevant conflict of law provisions may be found in the Rome-I-Regulation. Accordingly the parties can either choose the applicable contract law or – in absence of such an agreement – the law will be determined according to Art. 4 section 2 Rome I Regulation. The law of the party who undertakes the characteristic performance is relevant. As a general rule therefore the law of the right holder will be decisive for the contract on the grant of a security. Attention should be drawn to the fact that the lex contractus under Art. 12 and 15 Rome--Convention also applies to formal requirements.

The second level concerns the validity of the security as such. A security is a right in rem and thus

pertains to the right as such. If it is valid the grant has third party effect and – as a general rule – will also be respected in case of default or insolvency. This third party effect is beyond the scope of contract law and instead governed by the *lex protectionis*. This national law may also provide for formal requirements, such as the contract being in writing or the record of the transaction in the register.

As both contract law and the IP law may contain formal requirements the grant depends on complying with the requirements of both legal orders.

Taking up the example mentioned a German court would first apply U.S. patent law to the question whether it is permissible to use a U.S. patent as collateral and also to decide which types of security rights can be granted. In addition the formal requirements for the validity against third parties would be evenly determined by U.S. law. In case the chosen security as such is permissible, the court will then in a second step determine the applicable contract law under Art. 4 Rome-II-Regulation. Absent a choice of law the law of the right holder/debtor granting the security is applicable. As both parties have their seat within the EU this will be the contract law of a EU Member State.

Parties can (and should) reduce complexity if they choose the same law which governs the IP right as the law governing the contract under Art. 3 Rome-I-Regulation.

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 application of the *lex protectionis* is mandatory. It can only be modified by contract if and to the extent that the *lex protectionis* leaves room for contractual agreement. If for example a pledge is granted on a German patent, then German law is the *lex protectionis*. Patent law states that patents are transferable (Section 15 Patent Act). Section 1274 II BGB clarifies that all fully transferable rights can be the object of a pledge. Section 1277 BGB then regulates how the security can be monetized in case the debtors default. According to this rule the creditor has to obtain an enforceable court order – unless otherwise provided by the parties. As the legislator explicitly leaves room for a different scheme on realization this vacancy can be filled by a contractual agreement. That said it should be noted that the effect of securities vis-à-vis third parties is mandatory law and does not leave any room for contractual stipulations.

Applying these rules to the example given in recital 21 would lead to the following result: 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, a German court would decide the first question on the permissibility to grant a pledge separately for each patent, i.e. under Chinese, Dutch and U.S. patent law. The same holds true for the formal requirements (written form, record). If and to the extent that the type of transaction is permissible, Swiss law will apply to the contract between the Dutch holder and the Chinese debtor. Provided that the contract is valid, then the court will have to review whether all formal requirements under Chinese, Dutch and U.S. patent law are met and the pledge has obtained validity regarding the respective national laws.

As it is internationally acknowledged that the rule of *lex protectionis* is mandatory the complexity of securities in multijurisdictional IPR portfolios can only be reduced by substantive harmonization. As transferability of patents, trademarks and designs is already mandatory under TRIPS, the main complication results from the different formal requirements. An AIPPI resolution therefore should strive for governing the disputed question of whether such transactions have to be in writing and must be recorded in order to have third party effect. It may be advisable to strive for a compromise between the very freehanded German and the very strict French system. The rules in the UTMR and UDR could serve as a model.

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 this is possible. Under German law there is the underlying principle of freedom of contract, meaning that contracting parties can agree on whatever they want, unless it is contrary to mandatory law. The contract is enforceable between the contracting parties. However, in order to enforce, you still need a court decision or another executory title. It is for example possible if the contract is notarized that the contracting parties also agree to accept immediate enforcement (Section 794 I no 5 of the Civil Procedural Code).

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. However, as security rights can be granted without any form of publicity this may result to the detriment of a bona fide third party.

- 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:

The question is difficult to answer. With regard to genuine securities they appear to be well balanced – in theory. In practice the traditional security rights (pledge and usufruct) are rarely used.

With regard to licences, which are not a right in rem, but in practice used to substitute for a lack of workable security rights, there is an apparent imbalance, especially in situations of insolvency of the security provider, the situation of the security taker is relatively weak. We refer to Q241 from 2014. This is the result of balancing the interest of equal settlement of all creditors versus giving legal certainty to security takers. As set out in the respective resolution protection for the licensee is too weak.

- 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:

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:

At the moment, the legislation on pledges is rather abstract. In practice, there is a lot of open questions and uncertainties. Therefore it would be desirable to have more concrete legislation on how to handle this in practice.

It further has to be mentioned that German IPRs do not recommend themselves for use as securities. The main practical problem results from the fact that the register administrated by the GTPO only serves to simplify and accelerate the procedurres before the office. By contrast, registration neither of a transfer nor of any security interests – leave alone licences – is required. Accordingly, the taker of a security cannot rely on the accuracy of the register. This apparently is one reason, why IPRs cannot develop their full potential to serve as a security.

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:

German procedural law does not differentiate between tangible and intangible property. A party who obtains a right in rem will be secured, be it in case of forced execution or insolvency. Despite this theoretical openness the system appears insufficient: First, because the old-fashioned rules contained in the Civil Code, Civil Procedure Code and Insolvency Act are by their wording applicable to any kind of asset, but in practice tailored to the traditional securities, in particular estates, and are too inflexible. Second, because practice has circumvented this lack of flexibility by substituting rights in rem by other contractual measures, such as licences, which are not specifically protected. Accordingly, either the traditional security law should be adapted to the practical needs of intangibles or specific rules for IPRs should be inserted.

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

yes

Please explain:

In Germany, the rules of the German Civil Code always apply as a fallback position. This is well established and appreciated in practice.

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

As a minimum standard there should be the security assignment and the pledge. With regard to pledges, it should be possible to prevent the security provider from granting licenses without the security taker's consent, at least from granting exclusive licensees (cf. also questions 5, 24).

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:

All kinds of security interests should be equally available for all IPR. There is no reason to differentiate between different IPRs.

According to the instructions of this working question, non-registered rights have not been part of the consideration.

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:

The security provider should not be restricted to use their own IPR, however they should be restricted in their ability to grant licenses as the grant of such licences may lead to imbalanced results. This may occur due to the fact that, should the security provider default on their loan, the lender will be entitled to enforce their rights in terms of the security interest. Although a licence is not terminated in case of forced enforcement, it can be terminated under the contractual scheme by the new possessor. In addition it may be that the licensee is now entangled in a licence relationship with a party he would never have contracted with. But also from the perspective of the security taker licenses are problematic. In case of insolvency. A third parties who have taken a license without knowing a security interest has been created on the IPR will suddenly be severely disadvantaged.

To prevent situations where licenses are issued on encumbered IPRs, it should be mandatory that securitization of IPRs is entered into a register. In this way, a licensee would be warned and unable to argue that they had no way of knowing that the IPR in question was encumbered. The same reasoning may point to the registration of (exclusive) licences. Otherwise there is a risk, that a party accepts an IPR as a security and only afterwards finds out that the IPR is exploited by an (exclusive) licensee. In this case he is left with nothing but the shell, which will be difficult to monetize,

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

yes

Please explain:

In some situations it would be beneficial to allow the security provider to assign an encumbered IPR to a third party. For example, it may be that the security provider is not in a position to pay patent maintenance fees or other legal costs associated with upkeep of an application. So that the patent does

not expire due to non-payment (and with it, therewith the basis for the security arrangement and the security for the creditor), the security provider should be able to assign his IPR to a third party, who will pay the maintenance fees in exchange for usage rights. In such a case, the security provider would lose his usage rights in exchange for the patent being maintained and therefore his credit.

This may be distinguished from the security provider granting a license as discussed in question 24 because the security provider (the debtor) does not stand to gain from reassigning his IPR, whereas in granting licenses he would benefit from license fees.

In another case, the security provider may wish to have an independent third party act as a “keeper” for his IPR during the term of the loan agreement. In such a case, the IPR would be encumbered but not assigned to the creditor, although the creditor would still be able to enforce his rights in case of default.

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

Since infringement of the IPR may compromise the security, in addition to the security provider, the security taker should have standing to sue against infringers for an injunction or damages or any other remedies normally available to the owner. However, any damages awarded should be payable only to the owner, and the security taker should only acquire a security in the damages.

In the most typical situation, it is the interest of the parties that the security provider can continue to make full use of the IPR, to make business and generate income with the IPR so that e.g. a secured loan can be paid back. The security taker should therefore not have any rights to the proceeds realised from the exercise of the IPR, such as license fees, but it may be desirable that he acquires a security in the fees paid to the security provider.

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 and defence of the IPR, and he should be obliged to take all reasonable measures to keep the IPR in force.

The security taker should have the possibility to make a maintenance payment himself to avoid that the IPR expires. Furthermore, the security provider should have the possibility to join the security taker in the defence of the IPR. In order to allow the security taker to do so, the security provider should be obliged to notify the security taker of any attack against 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)?

If the underlying IPR expires or is revoked, the security right should lapse. The party who was responsible for the maintenance and defence of the IPR should be liable for damages in case it did not take all reasonable measures to keep the IPR in force.

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

yes

Please explain:

Yes, it is desirable that all these effects can be modified by agreement between the security provider and the security taker, to come to a regime that best suits their business purpose.

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 availability, requirements (form, registration) and third party effects should be governed by the law of the country for which protection is sought. First of all this rule is generally acknowledged as the proper right for IPRs. Apart from many national legal orders the American Law Institute and the Max-Planck-Research Group have recommended to adhere and enforce this general principle. Second, the benefit of this rule is that it is easy to determine the applicable law (German law for a German patent, French law for a French patent). Third, it ensures that the formal requirements are mirrored by the administrative procedures of the office. Otherwise the absurd situation may occur, that the applicable law requires registration as a prerequisite for the valid grant, but the respective national register does not allow such registration. Last but not least the balance between the interest of users of IPRs and those of security holders is also a balance between fostering innovation and legal reliability. This genuine policy question should be left to the respective national legislator. This said it is of course highly desirable to harmonize the requirements and effects in order to allow for a prosperous environment, even more so as many modern companies today no longer have any traditional assets which they could provide as security.

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

no

Please explain:

No the mandatory application of the law of the country for which protection is sought is both in the interest of legal reliability and the interest of third parties. A choice of law by definition may not impair third party rights. Allowing the parties to overrule the lex protectionis by a contract law freely chosen at the same time would be contrary to the recently harmonized rules on conflict of laws adopted by the European Union.

Instead of altering the conflict of laws regime it would be preferable to spell it out in more detail, to ease the adequate application by those courts who do not deal with these issues on a daily basis.

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.

As securitization of intellectual property rights often comprise intellectual property rights granted or registered in numerous countries, it is desirable to harmonize the formal requirements for an effective securitization as far as possible to reduce its complexity. Furthermore, it would be desirable to harmonize the possibility of entering the securitization of IPR in the respective IP register and the effects following such registration, e.g. the preclusion obtaining rights under the IP right in good faith which may devalue the security for the security taker.

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

All relevant aspects have been addressed in the questions and answers above.

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

Summary

Harmonisation of the laws governing securities over IP is desirable because typically, worldwide IPR portfolios form the basis of a single security transaction. At least from the German point of view, the laws of the different countries where the IPRs are registered have to be applied for the questions of the validity and the effect of the security.

An ideal regime should provide optimum security for the security taker and at the same time the possibility of a most flexible use of the IPR by the security provider.

E.g., it is typically in the interest of the parties that the security provider can continue to make full use of the IPR, to generate income with the IPR, including license income. The security provider should also be allowed to assign an encumbered IPR to a third party.

On the other hand, there should be ways to ensure that the IPR remains encumbered in case of an assignment. It should be possible to prevent the security provider from granting licenses without the security taker’s consent, at least from granting exclusive licenses. Finally, the protection of intangible property in case of insolvency should be as strong at that of tangible property.

A security assignment tends to provide great freedom to shape the relationship between the parties. On the other hand, this type of security provides little statutory guidance for the contracting parties. While a pledge tends to provide rules at a desirable level of detail, there should be the possibility to modify the rules by agreement between the security provider and the security taker.