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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)?  
no  
Please explain:

The Civil Code provides for security interests in general, while the intellectual property acts have a few number of special provisions. The Patent Act (Art.95)[1], the Trademark Act (Art.34 (1)[2]), and the Design Act (Art.35 (1)[3]) provide for creation of a pledge. The details of pledges are provided in the Civil Code (Art.362)[4].

[1] Art.95 of the Patent Act: Unless otherwise agreed upon by contract, where a right of pledge is established on a patent right, exclusive license or non-exclusive license, the pledgee may not work the patented invention.

[2] Art.34(1) of the Trademark Act: Where a pledge is established on a trademark right, exclusive right to use or non-exclusive right to use, unless otherwise provided for by contract, the pledgee may not use the registered trademark in connection with the designated goods or designated services.

[3] Art.35(1) of the Design Act: Unless otherwise agreed by contract, where a right of pledge is established on a design right, exclusive license or non-exclusive license, the pledge may not work the registered design or design similar thereto.

[4] Art.362 (1) of the Civil Code: Pledges may have property rights for their subject matters. (2): In addition to the provisions of this Section, the provisions of the preceding three Sections (General Provisions, Pledges of Movables and Pledges of Immovable properties) shall apply mutatis mutandis to pledges under the preceding paragraph, to the extent that application is not inconsistent with the nature of the same.

- 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.

no

Please explain:

(1) As the types of security interests to be created over IPRs, a pledge and a security assignment (i.e. assignment by way of security, the same shall apply hereinafter.) are available. There are also a foundation mortgage (Art.1 of the Enterprise Mortgage Act) and a factory mortgage (Art.11 of the Factory Mortgage Act). In addition, by forming a trust, it is possible to securitize IPRs and its future profits therefrom as trust property, for the purpose of raising funds. However, this Study Question seems to be intended to ask about security interests created over IPRs, and therefore, we will discuss pledges and security assignments in our answers to the questions below.

(2) Pledges are not characterized by the full assignment of the underlying IPR to the security taker.

(3) A security assignment takes the form of a transfer or a pre-contract for the transfer of title (ownership, a real right such as an IPR), which serves as security (collateral) in effect. The details of such security interests have been clarified in judicial precedents and partially codified in law (the Act on Contract for Establishment of Security Interests by Use of Provisional Registration, Act No.78 of 20 June 1978). The intellectual property acts also do not explicitly provide for security assignments[1].

(4) In relation to security assignments, the details of legal relationships are established in accordance with contractual details found by the courts. However, there are few judicial precedents concerning a security assignment in an IPR, so we would better refer to past court decisions on that of typical movables and immovable such as : (i) A transfer of title has an effect only to the extent necessary to achieve the purpose of securing claims (Supreme Court decision dated 28 September 1982 [1981(O) No.1209] *Hanrei Jihou* No.1062, page 81); and (ii) Even if it takes the form of an assignment with a special repurchase contract, as long as it does not involve a transfer of possession, it should be

regarded as a security assignment unless the circumstances are exceptional (Supreme Court decision dated 7 February 2006 [2005 (Ju) No.282] *Minshu* Vol.60, No.2, page 480), and so forth.

In the context of insolvency laws (the Bankruptcy Act, the Corporate Reorganization Act, and the Civil Rehabilitation Act), if the transaction is determined to be a security assignment, the holder of the security interest may not exercise a "right of segregation" (Art.62 of the Bankruptcy Act, Art.64 of the Corporate Reorganization Act, and Art.52 of the Civil Rehabilitation Act) even though the assignment took a simple form of a transfer which was notified to the public. In this case, the security holder may exercise a "right of separate satisfaction" (Art.65 of the Bankruptcy Act, Art.2(10) of the Corporate Reorganization Act, and Art.53 of the Civil Rehabilitation Act) (Supreme Court decision on the Corporate Reorg. Act dated 28 April 1966 [1964 (O) No.440] *Minshu* Vol.20, No.4, page 900).

In other contexts than the insolvency laws discussed above, as long as the court finds that the transaction is a security assignment in essence, the security taker is obliged to make a reimbursement for the difference between the amount of the residual claim and the value of the subject matter of security at the time of exercising their security interests (Supreme Court decisions on "security interests to be exercised through acquisition by creditor" dated 25 March 1971 [1967 (O) No.1279] *Minshu* Vol.25, No.2, page 208; and on "security interests to be exercised through sell-off to third party" (premised on obligation of reimbursement) dated 11 April 1997 [1993 (O) No.358] *Saiji* No.1193, page 1).

In the case of a transfer to a third party, the subsequent acquirer may acquire the security interests in any case of the following: i) the subject matter is assigned in disregard of a special repurchase contract (Supreme Court decision dated 25 September 1920 [1920 (O) No.522] *Minroku* Vol.26, page 1389); ii) ownership of the subject matter is assigned from the security taker before the full payment of debts (Supreme Court decision dated 3 September 1959 [1957 (O) No.532] *Minshu* Vol.13, No.11, page 1357); and iii) the payment is overdue (Supreme Court decision dated 23 April 1982 [1979 (O) No.18] *Kinpou* No.1007, page 43).

We think that the above-mentioned consequences also apply to the assignment of an IPR as security, although we are not sure whether there are differences in details because the requirements for a transfer of title are different between the IPRs and the rights to movables/immovables.

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[1] Through a security assignment, the funding party and the receiving party form their legal relationships based on the receipt of a loan and the provision of security. The provision of security takes the form of a transfer of ownership of the subject matter of security (or patent, trademark or design rights in the context of security interests created over IPRs) (usually accompanied by an explicit or implicit pre-contract for re-selling with suspensive conditions); or it takes the form of a pre-contract for the transfer of ownership of the subject matter (or patent, trademark or design rights) or a similar form (such as a pre-contract for payment in substitution and a contract for payment in substitution with suspensive conditions).

The transfer of title represents an external form of disposition of the right that may go beyond its purpose (creation of security interests). However, the real nature of such an external form of transfer is simply to create security interests and this fact is publicly notified by indicating "security assignment" as a reason for the registration in the register, although it seems that "purchase/sale" is often used in place of "security assignment."

A security assignment may also take the form of sale of the subject matter. In this case, the amount paid for the subject matter is devoted to the payment of outstanding debts etc. and therefore, a secured claim does not exist ("mortgage by sale"; the parties do not form a contractual relationship based on the receipt of a loan). As thus far described, there are various forms in which ownership or a

real right is transferred in effect for the purpose of securing claims, and they are collectively called "assignment by way of security" in a broad sense.

- 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 authorizes the pledgee to dispose of the subject matter only in the event of default. In the case of a security assignment, it is ordinarily considered possible to dispose of the subject matter only in the event of default, in accordance with intentions of both parties. However, even when assigned to a third party by the security taker before the payment due date (in breach of the contract), such disposition is recognized as a completely valid assignment under the Civil Code just because an assignment of interest from the security provider to the security taker thought to have the effect with respect to third parties (Supreme Court decisions: 25 September 1920 [1920 (O) No.522] *Minroku* Vol.26, page 1389; and 3 September 1959 [1957 (O) No.532] *Minshu* Vol.13, No.11, page 1357).

Also, the pledgee may sub-pledge the subject matter on their own responsibility (Art.348[1] of the Civil Code). Therefore, it is possible for the pledgee to get a loan by using the subject matter as security interests, with which it is not deemed as the disposal of the subject matter.

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[1] Art.348 of the Civil Code: Pledges may sub-pledge the Thing pledged within the duration of their rights, upon their own responsibility. In such cases, the pledgees shall be responsible for any loss arising from the sub-pledge even if the same is caused by force majeure.

- 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:

A pledge does not authorize the pledgee to use the intellectual property that is protected by the encumbered IPR unless otherwise provided for by a contract (Art.95[1] of the Patent Act, Art.34[2] of the Trademark Act, and Art.35[3] of the Design Act). Although the same can be said of the case in which the pledger defaults on their payment of the secured claim, the pledgee will be allowed to use the fruits of the encumbered IPR instead (Arts. 362[4], 371[5], and 372[6] of the Civil Code).

In the case of security assignments, it depends on contents of the individual contractual arrangement.[7]

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[1] Art.95 of the Patent Act: Unless otherwise agreed upon by contract, where a right of pledge is established on a patent right, exclusive license or non-exclusive license, the pledgee may not work the patented invention.

[2] Art.34(1) of the Trademark Act: Where a pledge is established on a trademark right, exclusive right to use or non-exclusive right to use, unless otherwise provided for by contract, the pledgee may not use the registered trademark in connection with the designated goods or designated services.

[3] Art.35(1) of the Design Act: Unless otherwise agreed by contract, where a right of pledge is established on a design right, exclusive license or non-exclusive license, the pledge may not work the registered design or design similar thereto.

[4] Art.362 (1) of the Civil Code: Pledges may have property rights for their subject matters. (2): In addition to the provisions of this Section, the provisions of the preceding three Sections (General Provisions, Pledges of Movables and Pledges of Immovable properties) shall apply mutatis mutandis to pledges under the preceding paragraph, to the extent that application is not inconsistent with the nature of the same.

[5] Art.371 of the Civil Code: If there is a default with respect to a claim secured by a mortgage, the mortgage shall extend to the fruits of the Mortgaged Immovable Properties derived after the default.

[6] Art.372 of the Civil Code: The provisions of Article 296, Article 304 and Article 351 shall apply mutatis mutandis to mortgages.

[7] If nothing is stipulated in this regard in the contract, this will be a matter of a reasonable interpretation of the parties' intentions. Since a security assignment is a kind of security interests in essence, the provisions on pledges might be analogically applicable. Theoretically speaking, however, it can be said: (i) the security taker is allowed to use the IPR if the assignment takes the form of a transfer of title, but (ii) not allowed if the assignment takes the form of a pre-contract for the transfer of title. There seems to be no court precedent on this point.

- 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.

Security assignments (including those transactions based on pre-contracts, security interests established by the use of provisional registration, etc. as mentioned above) are used for the IPRs in most cases and pledges are also used. There is no difference in this tendency between patent, trademark, and design rights.

#### 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.

no

Please explain:

A pledger is not restricted in their right to use their IPR unless otherwise provided for by a contract.

In the case of a security assignment, such a right is usually stipulated in a contract and the right to use IPRs is usually not restricted therein.[1]

[1] If nothing is stipulated in this regard in the contract, it is possible that the provisions on pledges may be analogically applied. It can also be said: (i) the security provider is not allowed to enforce their IPR if the assignment takes the form of a transfer of title, but (ii) allowed to do so if the assignment takes the form of a pre-contract for the transfer of title.

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

yes

Please explain:

A pledger may assign their encumbered right to a third party.

If the subject matter was assigned by way of security, the security provider may not assign it to a third party because title to and registered ownership of the subject matter is externally regarded as having been entirely transferred to the security taker. If the assignment took the form of a pre-contract for the transfer of title, it is considered possible to assign it to a third party. However, if the security taker exercises their right under the pre-contract to register the transfer, the assignment to a third party will probably be overturned.

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)?

There is no restriction in particular on an assignment of the subject matter of a pledge (i.e. no need to obtain consent from the security taker). Under Japanese law, however, a transfer of IPRs (except copyrights) becomes effective when the transfer is registered. Such general rules must be observed.

This also applies to a security assignment (in the form of a pre-contract) that is assignable to a third party.

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

yes

Please explain:

In the case of a pledge, the IPR remains encumbered after the assignment.

In the case of a security assignment (only when it is assignable to a third party, i.e. in the form of a pre-contract), the IPR is thought to remain encumbered after the assignment.

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

If a pledge is created over movables/immovable, the pledgee may file a claim for damages and/or for the discontinuation of disturbance against an infringer in accordance with general rules under the Civil Code, provided that certain requirements are met (i.e. this right is limited). (Supreme Court decisions: 21 October 1931 [1931 (O) No.19] *Minshu* Vol.10, page 913; 13 April 1936 [1935 (O) No.2276] *Minshu* Vol.15, page 630; 24 November 1999 [1996 (O) No.1697] *Minshu* Vol.53, No.8, page 1899; etc.)

Probably, the same applies to a pledge created over an IPR. After default of the pledger on their payment of the secured claim, the pledgee becomes entitled to license fees (Arts.362(2)[1], 371[2], and 372[3]).

When an IPR is assigned (in the form of a transfer of title), the IPR is externally regarded as having entirely been transferred to the security taker, and therefore, it is considered possible for the security taker to file a request for damages and/or injunctions against infringement of the IPR. As to license

fees, it is doubtful whether the license agreement may be transferred automatically along with the IPR. (A non-exclusive license for patent, design, and utility model rights has an effect against an assignee of the IPR. See Art.99[4] of the Patent Act, Art.28(3)[5] of the Design Act, and Art.19(3)[6] of the Utility Model Act. A license agreement does not terminate upon assignment, nor is there a provision or court decision that explicitly states that a license agreement may be transferred automatically. When the assignor obtains a license with a right to grant sublicenses from the assignee, the assignor will be continuously allowed to perform their contractual obligations and will not be automatically prevented from performing their contractual obligations. If there are some clauses that accompany the license agreement, the assignee of the patent, design, or utility model right will not always be able to fulfill such clauses. Therefore, it is unreasonable to think that the contractual status of the licensor may be automatically transferred to the assignee as a result of the assignment of a patent, design, or utility model right. Incidentally, a non-exclusive licensee of a trademark right needs to register their license to have an effect against the assignee of the trademark right.)

Based on the opinion that a license agreement is not automatically transferred, the security taker would not be entitled to license fees. On the other hand, assuming that a license agreement may be automatically transferred, there would be two opposite opinions: the one is that the provisions on pledges would be analogically applicable; and the other: they would not. There does not seem to be an established theory about this.

In the case of a security assignment in the form of a pre-contract for the transfer of title, the security taker would not be entitled to license fees anyway.

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[1] Art.362 (1) of the Civil Code: Pledges may have property rights for their subject matters. (2): In addition to the provisions of this Section, the provisions of the preceding three Sections (General Provisions, Pledges of Movables and Pledges of Immovable properties) shall apply mutatis mutandis to pledges under the preceding paragraph, to the extent that application is not inconsistent with the nature of the same.

[2] Art.371 of the Civil Code: If there is a default with respect to a claim secured by a mortgage, the mortgage shall extend to the fruits of the Mortgaged Immovable Properties derived after the default.

[3] Art.372 of the Civil Code: The provisions of Article 296, Article 304 and Article 351 shall apply mutatis mutandis to mortgages.

[4] Art.99 of the Patent Act: When a non-exclusive license is registered, the non-exclusive license shall have effect on any person who subsequently acquires the patent or the exclusive license, or the exclusive license on the patent right.

[5] Art.28(3) of the Design Act: Articles 73(1) (joint ownership), 97(3) (waiver) and 99 (perfection of non-exclusive license) of the Patent Act shall apply mutatis mutandis to non-exclusive licenses.

[6] Art.19(3) of the Utility Model Act: Articles 73(1) (joint ownership), 97(3) (waiver) and 99 (perfection of non-exclusive license) of the Patent Act shall apply mutatis mutandis to non-exclusive licenses.

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

When a pledge is created over an IPR, the pledger is responsible for its maintenance and defense.

When an IPR is assigned by way of security, its registered holder is responsible.

- 10) What are the legal consequences if the underlying IPR expires or is revoked? For example, the security right lapses simultaneously; the creditor has a compensation claim against the security provider.

In both cases of a pledge and a security assignment, the security right lapses simultaneously, and the creditor may not claim for a compensation or supplementary security.[1]

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[1] However, the revocation of the underlying IPR is caused by a (deliberate) breach of obligation on the part of the debtor (e.g. The patent lapses before its expiration date due to the debtor's deliberate failure to fulfill the obligation to pay the annual fees.), the debtor forfeits the benefit of time on the grounds of their act of damaging or diminishing the security (Art.137(2) of the Civil Code). In such a case, the creditor will probably not be able to claim for a compensation or supplementary security, either (no provision is found in the Civil Code or the IP acts,), but there may be objections against this theory.

- 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:

Some of the effects can be modified by contractual provisions. For example, it is possible for the parties to modify the payment/receipt of license fees by means of a delegation agreement, and to agree on supplementary security. However, such modifications become effective only between the parties (similarly to the effects of a claim, which may be exercised only between the creditor and the debtor).

#### 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:

- 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 Japanese law does not provide for this aspect and there are not judicial precedents on related cases. It is presumed, however, that the governing law on creation of security interests agreement is left up to an agreement between the parties, and the effect and perfection are governed by the law of the country where the IPR is registered. For example, it may be possible to create security interests agreement over a US patent under the Japanese law, but the US law will apply as to the effect and perfection of security interests over such IPRs.[1]

[1] The Supreme Court holds, "Although a pledge of right is a type of real right, its subject matter is not a tangible object but a property right, and therefore it is impossible to determine the whereabouts of the subject matter itself. However, the pledge controls the property right and directly influences the fate thereof. For this reason, it is reasonable to think that the law that should apply to this case is the law governing the claim itself (Supreme Court decision dated 20 April 1978, Minshu Vol.32, No.3, page



616). On the assumption that this principle is applicable to security interests over IPRs in general (Such an opinion is found on page 328, Commentary on International Private Law, by Yoshiaki Sakurada and Masato Dougauchi, Yuhikaku Publishing 2011), the law that should apply to the creation, perfection and effect of security interests is the law governing an IPR provided as security interests. (More specifically, the IP law of the country where each IPR in dispute is registered. As a decision on the law governing the effect of a patent, see Supreme Court decision dated 16 September 2002.)

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:

There is no rule as to which law should take precedence regarding availability and effect of security interest agreement over IPRs. However, in the case of a pledge, if the parties choose a law in disregard of the *lex situs* (law of the place where the real property is situated) in relation to acquisition, loss and change of the rights, it is possible that a pledge may not be created or an adequate means may not be available at the time of exercise.

In the case of a security assignment (in both forms of a transfer of title and a pre-contract for the transfer), a choice of law provision can overrule the Japanese law. However, it is possible that an adequate means may not be available at the time of exercise.

#### Additional question

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

no

Please explain:

Since a pledge is a limited real right, it seems not possible to create a solely contractual regime. In relation to the principle of statutory establishment of real rights under the Japanese law, the creation of such a different system would conflict with the mandatory statute.

In the case of a security assignment, there seems to be a higher degree of freedom to specify the detail of rights in a contract. However, such freedom may be restricted because no change can be made to the following, regardless of what is stipulated in the contract: (1) If it takes the form of a transfer of title, this title will be externally appeared as being entirely transferred, and (2) There is an obligation of reimbursement at the time of exercise.

## **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:

There are, however, still uncertainties about security interests to be created over IPRs registered in foreign countries, in terms of the applicable law, jurisdiction, and enforceability 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:

Pledges: We see no problem in particular. The exercise of a pledge is generally considered costly and time-consuming.

Security assignment: Due to lack of an appropriate enforceable mechanism for realizing the security, intended to fulfil the obligation of reimbursement at the time of exercise, it is possible that the encumbered assets cannot be easily realized when the parties cannot agree on the realization.

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:

We see no problem in particular with the current systems for pledges and security assignments.

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:

It would be better if the subject matter of security interests could be realized at lower cost. In particular, our country should develop a procedure for realizing security interests over a large number of IPRs at a time if possible.

It seems that business ventures do not use very much a funding scheme using IPRs as security. This is partly because, in addition to various means of funding, an abundant supply of funds is available in the market. Therefore, having a technological edge allows them to obtain funding from venture capital firms and/or go public to raise funds (without the need to use their IPRs as security).

A funding scheme using IPRs is more often used by businesses that have little potential for growth and have nothing valuable other than IPRs.

### III. Proposals for harmonisation

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

no

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?

no

Please explain:

In Japan, security assignments are not regulated by specific statutory provisions, but by legal principles established in the judicial precedents. If there were specific provisions for security interests over IPRs, such legal principles would not be applicable, which could lead to a loss of the predictability about security interests in business activities.

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

yes

Please explain:

Our answer is Yes if "general commercial law principles" in this question refers to principles of the existing commercial law of each country. In Japan, the legal system for security interests is mainly based on the Civil Code and the Commercial Code as described in our answer to Question 19). However, if this question refers to a new set of commercial law principles to be shared by all countries, this will not be desirable because of the problem in connection with the legal principles as described in our answer to 20).

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

A type of security interest that takes the form of an assignment of an IPR, serving as security in essence, just like a security assignment (assignment by way of security) in Japan.

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:

In Japan, a non-exclusive license will be treated differently between different types of IPR, when the IPR is assigned to the security taker and when the IPR is assigned to a third party by exercise of the security interest:

In the cases of patents, designs and utility models, a non-exclusive licensee may make an assertion of his/her right to use the IPR against the third party who has obtained the IPR from the licensor. In the case of trademarks, on the other hand, a non-exclusive licensee may make such assertion only if his/her non-exclusive license has been registered. In consideration of difference like this, the law should be applied differently depending on the type of 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:

To secure funds for payment of the loan, the security provider should be allowed to gain profits from their IPRs.

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

no

Please explain:

The assignment of encumbered IPRs to third parties should not be allowed across-the-board, although we are not opposed to the assignment to third parties itself. Whether to permit it or not should be stipulated in a contract under which the security interests are created.

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

It depends on the contractual status of the security taker. The security taker does not necessarily need to have equivalent rights to those of the IP holder.

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.

28) What should the legal consequences be if the underlying IPR expires or is revoked (e.g. the security right lapses simultaneously; creditor gains a compensation claim against security provider)?

In such a case, the simultaneous lapse of the security right would be considered a natural conclusion. However, a decision on the possibility of gaining a compensation claim should be left to agreements between the parties.

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?

Interpretations of contract-related matters should be left to the choice of governing law by the parties. The effects of security interests should be governed by the law of the country where the relevant IPR was granted. As to a transfer of the IPR and the registration thereof, the applicable law will be that of the country where the IPR was granted and therefore, it is no use specifying a law governing the effects of security interests.

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

yes

Please explain:

As described in our answers to Question 30) above, in relation to the interpretations of contract-related matters, the choice of governing law should precede. However, when it comes to the effects and, transfer and its registration of security interests, the applicable law should overrule the choice of governing law provision because the effects of security interests should be governed by the law of the country where the relevant IPR was granted.

#### 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.

Apart from harmonization of the substantive aspects, it would be a good idea to provide a one-stop service for international registration of security interests created over IPRs at the IP authorities of each country, by making a framework for international cooperation as in the case of the Patent Cooperation Treaty.

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

Paragraph 12) of the Study Guidelines asks us to review the national responses in Annex I to the WIPO Questionnaire. The following are our brief comments on consistency between Japan's responses in the document WIPO/IP/FIN/GE/09/7 (hereafter "Annex") and the Group's answers to the questions above:

A) Part I of the Annex

1) Japan is not included in "Q.3 (iii)." This issue is addressed by the Patent, Utility Model, Design, and Trademark Acts, but not by the Copyright Act in Japan[1] . Therefore, "Japan\*" should be included in the "IP Law" row.

2) In "Q.8 (i)," Japan is included in the "Alone" and "No action allowed" rows. This response should be modified to be: "Japan (security assignment)" in "Alone" and "Japan (pledge)" in "No action allowed."

3) In line with the modification in 2), "Japan" in the "Both" row in "Q.8 (ii)" should be modified to be "Japan (security assignment)."

B) Paragraph 29 in Part II of the Annex

1) "With regard to pledges," should be inserted at the beginning of the 2nd sentence (*IP laws address issues...*).

2) Between the 2nd and 3rd sentences, the following should be inserted: "With regard to security assignments, a secured claim may be satisfied by disposition of IP subject to the security interest in accordance with an agreement between the creditor and the debtor, without the need for a procedure under the Civil Execution Act."

3) At the end of the 6th sentence (...or both.), "in the case of a security assignment." should be inserted.

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[1] Art.8 of the Patent Registration Order (Order No.39 of March 24, 1960), Art.2 of the Utility Model Registration Order (Order No.40 of March 24, 1960), Art.2 of the Design Registration Order (Order No.41 of March 24, 1960), and Art.2 of the Trademark Registration Order (Order No.42 of March 24, 1960).

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

Regarding Q19, there is no space to enter our explanation. Therefore, we would like to show it in this box.

[Q19 Explanation]

We do not think that harmonization of laws concerning security interests over IPRs is desirable. The legal system for security interests is not only based on the IP laws but also on the civil and commercial laws. While the civil and commercial laws continue to be different from country to country, it is not realistic to achieve harmonization of laws concerning security interests over IPRs, and such harmonization could have an unexpected negative effect. Moreover, harmonization of these laws would not necessarily be beneficial in a practical sense.

We will answer the following questions to the extent that they are related to our country.

#### Summary

In Japan, (i) a pledge and (ii) a security assignment (i.e. assignment by way of security) are typically available as security interests to be created over IPRs. Such types of security interests themselves are provided in the Civil Code while the acts on IPRs such as Patent Act and Trademark Act have several special provisions.

Pledge:

Pledge does not bring full assignment of the underlying IPR to a pledgee, a security taker. A security taker is not authorized to use the intellectual property unless otherwise agreed between the parties of the pledge but is authorized to obtain the fruits from the IPR. On the other hand a pledger is not restricted in his right to use his IPR. The assignment of the pledged IPR by a pledger to third party is permissible and the pledge is also assigned.

Before default, a pledgee may file a claim for damages and/or for the discontinuation of disturbance against an infringer if it satisfies general rules under the Civil Code, but as basically the holder of the IPR is a pledgee, he can seek damages and/or injunctions against an infringer and is responsible for its maintenance and defense on the IPR.

Security Assignment:

A security assignment takes the form of a transfer or a pre-contract for the transfer of title, which serves as security in effect. Whether or not a security taker is authorized to use the intellectual property depends on the agreement between the parties of such an assignment. Usually such an agreement does not restrict an assignor's right to use the IPR. On the other hand, if a title to and registered ownership of an encumbered IPR is transferred to a security taker, a debtor cannot assign the IPR to third party.

Before default, a security taker may file a claim for damages and/or injunctions against an infringer. Also he is responsible for its maintenance and defense on the IPR.

We do not think that harmonization of laws concerning security interests over IPRs is desirable. The legal system for security interests is not only based on the IP laws but also on the civil and commercial laws. Also, harmonization of these laws would not necessarily be beneficial in a practical sense. The reliance on legal principles established in the judicial precedents on security assignments is another reason for disagreement on the harmonization by specific provisions regulating security interests over IPRs generally.

If any rules are to be established as minimum standards which are common to every country, a security provider should not be restricted in his right to use his IPR; it is not necessary for a security provider to assign encumbered IPR to third party or for a security taker to enforce encumbered IPR against an infringer, both of which should be provided in the agreement on the security; and a security provider should be responsible for maintenance and defense of encumbered IPRs.

As for applicable law, in relation to the interpretations of contract-related matters, the choice of governing law should precede. On the other hand, when it comes to the effects and, transfer and its registration of security interests, the applicable law should overrule the choice of governing law provision.