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## 2016 – Study Question (General)

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**Security interests over intellectual property**

Responsible Reporter: Ralph NACK

National/Regional Group	New Zealand
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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:

General commercial law provisions govern the types of security interests. Some IPR legislation provides specific mechanisms for recording rather than creating security interests.

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:

Yes, it is possible under New Zealand law to take an assignment of IPRs by way of security, but it would need to be set up in a contract between the parties.

- b) Does your law provide for security interests that authorize the security taker to realize the security interest only in the event of default? For example, a pledge over an IPR that authorizes the pledgee to liquidate the pledged IPR in the event of default (but not to otherwise dispose of the IPR).

yes

Please explain:

Yes. Under the Personal Property Securities Act 1999, the primary remedy for a security holder is to deal with the secured property, including any IPRs, in the event of default.

- c) Does your law provide for security interests that authorize the security taker to use the underlying IPR? For example, *usus fructus* rights that authorize the creditor to use and/or realize proceeds from the exercise of the IPR only during the term of encumbrance. Is any right to use the encumbered IPR conditional upon default of the security provider?

yes

Please explain:

Yes, it would be possible to structure a security agreement so that it allowed the secured party to use the IPRs either before or after default, but it would need to be set up in a contract between the parties.

- 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 interests over IPRs are primarily created under General Security Agreements (GSAs). Security interests created by way of assignment are less common. Security interests are registered under the Personal Property Securities Act 1998 which provides the same rights and remedies, generally, for any registered security interest. The main right given to the secured party under the Personal Property Securities Act 1999 is the right to sell the secured property on default. Any further remedies can be specified in a contract between the parties.

#### 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:

No, there is no restriction on the secured party unless specified in the contract between the parties.

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

yes

Please explain:

Generally, yes. In respect of patents, it is not clear whether the Intellectual Property Office would decline to register an assignment of an encumbered patent. There is no restriction on assigning an encumbered registered design or trade mark. Jointly owned patents may only be assigned with the consent of the joint owners.

7) If yes:

a) under what conditions may an IPR be assigned (e.g. obligation to obtain consent from the security taker, public notification or registration)?

The law does not specify any conditions for the assignment of encumbered intellectual property rights.

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

yes

Please explain:

If the security interest has been registered on the Personal Property Securities Register, then the IPR will remain encumbered with the original security interest unless the sale of the IPR is in the ordinary course of the security giver's business and the buyer is not aware that the sale is in breach of a security agreement. Unless the security giver is in the business of selling IPR, that is unlikely to be the case.

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

There are no special rights under the general law. Any specific rights would need to be specified in the contract between the parties.

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

The security provider is responsible unless otherwise specified in the contract between the parties.

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

If the IPR expires or is revoked, there would no longer be anything to take security over, so the security interest would be ineffective but the registration of that security interest would not automatically lapse. If the security giver was contractually obliged to maintain the IPR, and failed to do so, the secured party would have claim for breach of contract.

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:

Yes. The parties are free to agree additional remedies for the secured party by contract.

#### 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:

There is nothing specific in the New Zealand laws. Common law principles relating to conflicts of law would apply.

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 New Zealand law applies to NZ IPRs, ie IPRs created under New Zealand law or registered in New Zealand. The New Zealand law could not apply to any overseas IPRs.

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:

No. Choice of law would be effective as to the interpretation of the contract between the parties, but the law governing the creation and perfection of a security interest over property in New Zealand remains governed by New Zealand law.

#### 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:

Yes, but it will only be enforceable between the parties and will not be enforceable against third parties without registration on the Personal Property Securities Register.

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

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

yes

Please explain:

Yes. The current regime is similar to that operating in Australia and parts of Canada.

- 17) Under your Group's current law, is there an appropriate balance between the rights between security takers and security providers? For example:

a) are there situations in which the rights of security takers should be limited or extended (e.g. if assignment of an encumbered IPR is possible by the security provider without involvement of the security taker)?

no

Please explain:

Not in our view. The statutory remedies of the security taker are limited, but the parties are free to agree additional remedies if they wish.

b) are there situations in which the rights of security providers should be limited or extended (e.g. if the security taker is authorized to dispose of existing licenses without involvement of the security provider)?

no

Please explain:

No, the law is very permissive as to what the security provider can do with the secured property.

- 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:

Currently security interests in patents have to be registered on the patents register and the Personal Property Securities Register. It would be better if they only had to be registered in one place. It is also not clear currently what the effect of registering a security interest on the patents register is – this should be clarified. There is only limited provision for registering security interests on the trade marks register which is inconsistent with the current position on patents.

### 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?

no

Please explain:

No, we think it is better if the provisions regulating security interests apply generally to all types of property.

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

yes

Please explain:

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

We think the New Zealand system (which is based on the system in some parts of Canada, and is similar to the Australian system), where there is one general system that applies to all types of security interests, and generally does aware with firm distinctions between the different types, and a broad ability for the parties to agree further terms between them, is a good system.

23) Should the law be applied differently depending on the type of IPR? For example, should patents be encumbered exclusively with pledges, should trademarks be assigned to the security taker for the purpose of security?

no

Please explain:

No. As above, it seems to us that the most workable system is if one law applies to security over all types of assets, including all types 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:

Not generally, but we think the parties should be able to create additional restrictions by contract.

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

yes

Please explain:

We think a good general rule is that the security provider can assign, but subject to the security interest. This retains freedom for the security provider, while protecting the security taker's interest in the IPR.

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

None, unless agreed between the parties.

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

yes

Please explain:

The security provider, as the owner of the IPR, unless the parties agree otherwise.

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)?

Since the underlying property will be extinguished, it seems inevitable that the security interest will be ineffective. However, security is not often taken only over IPRs so any automatic lapsing provision may be dangerous. We think that any consequences should be agreed 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?

The law of the place where the IPR is registered.

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. People within one country need to be able to rely on the laws governing security interests when dealing with property within that country. It is not feasible for a third party dealing with property in New Zealand to have to consider foreign law, simply because the person who holds security over that property has elected to have the security governed by foreign law.

#### 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.

None.

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

None.

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

#### Summary

Security interests can be created over IPRs in New Zealand. General commercial law provisions govern the types of security interests. Some IPR legislation provides specific mechanisms for recording rather than creating security interests. Currently security interests in patents have to be registered on the patents register and the Personal Property Securities Register. It would be better if they only had to be registered in one place. It is also not clear currently what the effect of registering a security interest on the patents register is – this could be clarified. There is only limited provision for registering security interests on the trade marks register which is inconsistent with the current position on patents. The provisions regulating security interests should apply generally to all types of property.