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2016 – Study Question (General)

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Security interests over intellectual property

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I. Current law and practice

You are reminded that **IPRs** refers to patents, trademarks and registered designs only.
If more than one type of security interest is available under your Group's current law, please answer the questions for each type of security interest, as applicable.

Availability of security rights

1) Does your Group's current law provide for the possibility of creating security interests over IPRs?
yes
Please explain:

If yes, please answer Questions 2) to 14) inclusive before proceeding to question 15) and following.
If no, please proceed directly to question 15).

2) Are the available types of security interests defined by specific provisions relating to security interests over IPRs or by general commercial law principles (e.g. specific provisions in your Group's patent legislation rather than general commercial provisions that are applicable to tangible personal property as well as to patents)?

yes
Please explain:

All intellectual property rights can be pledged 'en bloc' as a floating charge on the operational assets of a business, which are used or intended for use in the business. As for copyright and performers' rights, however, this applies only to acquired rights, and not to rights that are in the author's or in the performer's possession, respectively.. The relevant provisions are in the Act on Mortgages and pledges.

Since 1 July 2015, security interests can be created in patents and patent applications, supplementary protection certificates, registered transferable patent licences and plant breeder rights and applications and transferable licences thereto. This legal reform was implemented by amendments in the Patents Act, the Plant Breeder Rights Act, the Mortgages Act and the Enforcement Act. These rules concern only rights that apply in Norway,

It should be mentioned that a creditor that holds a floating charge on the operational assets, including the IPRs of a business can not, based on such a right alone, prevent the debtor from later pledging the IPRs individually to other creditors.

- 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, a full assignment of the IPR with a transfer-back right for the assignor on agreed terms and in agreed circumstances is possible. However, the IPR covered by the IPR in question may be object to sequestration by the creditors of the assignee.

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, the way in which the pledgee benefits from the security is by realization of the relevant asset in case 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:

Creation of a floating charge on the acquired intellectual property rights of a business does not imply or entail a licence grant to the security taker to use the right or realise the proceeds from the exercise of the IPR. The same applies to separate securitization of patents, SPCs, plant breeder rights and transferable licences to such rights. A right to use or exploit the IPR would require the grant of a licence. A right to the proceeds from third party use of the IPR requires a transfer of the right to the royalties agreed with the third party. That can be achieved by notifying the party making the royalty payments to pay to the security taker.

- 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.

A Floating Charge on the operational assets of a business will include all IPRs, except copyright and performers' rights belonging to the pledger as the original owner (i.e. in his or her capacity as author or performer respectively).

Specific pledges on patents, SPCs, plant breeder rights and licences in said rights only cover the individual right specified.

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:

Unless otherwise agreed with the pledgee, the security provider is not limited in its right to use the IPR and to grant licences.

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

yes

Please explain:

In the case of floating charges, the IPRs may be assigned, replaced or licenced to the extent this is compatible with ordinary business and does not significantly reduce the security of the security taker. If it does, a consent is required. Also, if the security taker has given notice that it will take steps to realise the security, the security provider is no longer entitled to assign, replace or licence the IPRs.

When it is assigned to a third party, an IPR ceases to be covered by the floating charge.

In the case of IPRs provided as security individually, the encumbered IPRs may be assigned and licenced, unless otherwise agreed between the parties. The assignment of parts of a pledged asset is contingent upon the consent of the security taker, unless the assignment is clearly of no consequence to his security.

- 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)?

With regard to consent, see our answer to question 6. As regards other requirements, to achieve protection vis-à-vis bona fide acquirors of rights, the assignment has to be registered, if the IPR in question is registerable.

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 an assignment of an IPR covered by a floating charge, no. In the case of an IPR over which a security was provided individually, yes.

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

Registered security takers and licensees are to be notified by the plaintiff when any of the following types of proceedings are instituted: invalidity, entitlement and compulsory licence proceedings. It is not expressly stated in any statute that the security taker can defend such actions, but that is presumably the case. A registered security taker can institute proceedings in infringement cases, to obtain a preliminary or final injunction. The right to damages is contingent upon a financial loss having been suffered by the security taker, e.g. by the patent's value as security having been reduced. Security takers are not entitled to licence fees.

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 has an obligation to maintain the IPR so as to prevent that the value of the security is reduced. To what extent that includes defending the IPR from attacks on validity, is not clear.

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.

Upon expiry or revocation of the IPR provided as collateral, the security right lapses, but the secured claim is not affected by this, other than by becoming an unsecured claim.

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, they can, but only with effect as between the parties. All the non mandatory rules set out in the answers to questions 5 through 9 may be modified by agreement.

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.

There are no express provisions in Norwegian statutes on this.

The creation, perfection and effect of security interest over IPRs raises issues concerning the protection of third party interests, for example the collision of conflicting rights (the rights of other creditors and the rights of the security taker). Such issues are often a matter of public interest, and the availability to third parties of information by access to public records and registers speaks in favour of applying the law of the jurisdiction where the right is registered or protected (*lex loci protectionis*).

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

no

Please explain:

Choice of law provisions in a security interest agreement over IPRs can probably not overrule the otherwise applicable law as to availability of the security interest and effect. For example, a Norwegian IPR can not by a choice of law clause in the agreement between the security provider and the security taker be encumbered, if Norwegian law does not permit the creation of a security right in such a right, and the same applies if the parties try to widen the effects of a security right by choosing the law of a jurisdiction that is more permissive with regard to the characteristic in question, normally to the detriment of third parties.

Additional question

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

yes

Please explain:

Yes, that is possible. One approach is to assign the IPR and agree terms for a transfer-back. Another approach is for the IPR owner to assign the IPR to a limited liability company owned by him, and to pledge the shares in that company as security to the security taker. Generally, solely contractual regimes are more susceptible to scrutiny to determine if the rights or interests of third parties, such as the other creditors of the security provider, have been circumvented or set aside.

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

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

yes

Please explain:

The 2015 reform, which made it possible to provide security over certain individual IPRs has been in force for less than a year, and more experience on how it functions in practice should be gained before

it is assessed, also in terms of the degree of certainty and predictability it provides. As regards the floating charge security that became available in 1980, it has functioned reasonably well, providing predictability especially with regard to keeping IPRs that the security provider business uses in its operations in the business, available together with the tangible operational assets.

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:

The Norwegian group is not aware of any area or situation in which the rights of security takers should be limited or extended. The existing freedom available to the parties to agree terms and solutions suitable for their requirements generally works well.

The long term effects of the 2015 reform are not yet known, and it may take some time before sufficient experience has been obtained to assess whether limitations or extensions of the rights of the parties may be called for.

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:

See out answer to a) above.

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 can be a practical inconvenience that parties who need to check or verify what encumbrances there are over an IPR have to check for security rights, licences, or assignments of individual patents and breeder rights with the Patent Office (or the Plant Breeder Rights Register), and for any floating charges with the Register of Moveable goods.

Another potential problem area not fully resolved under current law is the lack of a procedure to notify security takers of the imminence of lapse of the IPR, so as to allow the security taker to prevent the accidental lapse of the IPR, e.g. by making payment of maintenance fees that the right owner has failed to pay. Similarly, the security taker should be given notice of any express renunciation of a registered IPR, and have the opportunity to oppose it.

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:

It is probably necessary to have certain specific provisions regulating security interests over IPR generally, but to the extent possible, general commercial law principles should be relied upon.

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

yes

Please explain:

See our answer to question 20.

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

Floating charges on IPRs that are used or intended to be used in the ordinary business of the security provider. IPRs that are exploited by licensing or intended for such exploitation should not be available as security by floating charges.

Pledges on individual patents, patent applications, SPCs and licences to exploit patents and patent applications, and plant breeders rights should also be available. Security interests related to such IPRs are better suited for individualisation than less exposed to changes and complicated right-ownership-structures than other IPRs, such as copyright and design rights, and, to a certain degree, trade marks. For instance, a design may also enjoy copyright protection, and as the design or work develops, other contributors may get involved and obtain limited rights based on their contributions. As the years go by, it may eventually become rather difficult to determine the IPRs contained within different versions of a design, and the ownership to the IPRs involved.

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:

Yes, with the exception that realisation of trademark rights should be made together with the business/activity/production for which the trademark is used.

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 providers should not be restricted in their own use of the IPR. However, the creation or grant of rights for other parties, if it is likely to significantly impact the security provided to the security taker, should be subject to the security taker's consent.

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

no

Please explain:

Not if the assignment significantly impacts the value of the security to the security taker.

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

This could probably be left to the parties to agree. In the absence of such agreement, the security taker should have the right to apply for injunctions against infringers and be entitled to damages, but only to compensate for any reduction of the value of his security. The security taker should not be entitled unless the licensor's claim for licence fees has been assigned to him/her.

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 maintenance and defence of the IPR should be the responsibility of the security provider. Safeguards should be in place so ensure that the security taker is notified of any critical deadlines requiring action to maintain or protect the IPR, and should be allowed to take such necessary action.

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

The security should also lapse. A compensation claim against the security provider is not relevant if the security provider is the debtor. If the security provider is not the debtor, the security taker should have a compensation claim against the security provider, if the latter has willfully or negligently allowed the IPR to lapse, expire or be revoked.

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

yes

Please explain:

Yes, although certain mandatory third party protection effects (e.g. in case of insolvency) falls outside the parties' right of disposal

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 jurisdiction where the IPR is granted or registered, or otherwise protected should apply to the availability and effects of security interests over foreign IPRs.

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

yes

Please explain:

A choice of law provision should be allowed to overrule the otherwise applicable law only as regards matters in which the parties have freedom of contract.

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.

Harmonization in this area should also cover the relationship between security rights and other voluntarily created or granted rights, such as licences, both as regards their creation, perfection, registration and their respective priority, and the best way in which the realisation of the security rights in default situations should occur to balance the interests involved fairly.

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

The Norwegian group has no additional issues it considers should be raised or discussed at this time.

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

IP advisers views.

Summary

In Norway, security interests over IPRs can be established in two ways: by means of a "floating charge"

on the operational assets of a business, IPRs being part of that group of assets; by security interests on patents, SPCs and plant breeder rights, applications for the same, and registered transferable patent and plant breeder rights licenses. Security takers can defend actions that challenge the validity of the IPR, and can enforce it against infringers by preliminary or final injunction, whereas a right to damages is contingent upon a loss having been suffered. The security provider has an obligation to maintain the IPR, preventing that the value of the security is reduced. It is unclear if that includes an obligation to defend the IPR against attacks on validity.

No conflicts of laws is provided in current Norwegian law as to the availability and effect of security interests over IPR portfolios containing foreign and national IPRs. As regards the law applying to the creation, perfection and effect of security interest in foreign IPRs, much can be said for applying the *lex loci protectionis*, but it is not clear if that is the current law.

The law was changed in 2015 to introduce for the first time the possibility of creating security rights in individual IPRs. The long term effects of this reform are not yet known, and can therefore not be assessed.

With regard to harmonization, floating charges on IPRs that are used or are intended for use in the business of the security provider should be available, but not if they are exploited by the right owner by licensing. Security rights on individual patents, SPCs, plant breeder rights and licenses in any of them should also be available. The Norwegian group is not sure copyright, design rights and trademarks are equally well suited for the creation of individual security rights.