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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:

In Pakistan, security Interests are available over Patent, Trade Mark and Design.

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:

In Pakistan, the types of Security Interests available to the parties are not laid down in the IPR Legislation. They depend on the nature of agreement between the parties. All Security Interests are available to the parties so long as they are not prohibited under law.

Trade Marks Ordinance 2001, Patents Ordinance, 2000 and The Registered Designs Ordinance, 2000 lay down the mechanism for recordal of Security Interests over Trade Marks, Patents and Designs respectively.

Section 55 of Patents Ordinance, 2000 is reproduced below:-

**55. Registration of assignments, transmissions, etc.-**

(1) Where any person becomes entitled by assignment, transmission or operation of law to a patent or to a share in a patent or becomes entitled as a mortgagee, licensee or otherwise to any other interest in a patent, he shall apply in writing in the prescribed manner to the Controller for the **registration of his title or, as the case may be, of notice of his interest** in the Register.

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Section 70 of Trade Marks Ordinance, 2001 is reproduced below:-

**70. Registration of transactions affecting registered trade mark.-**

(1) On application being made to the Registrar by- (a) a person claiming to be entitled to an interest in, or under, a registered trade mark by virtue of a registerable transaction; or (b) any other person claiming to be affected by such a transaction. the **prescribed particulars of the transaction** shall be entered in the Register.

(2) The following shall be registerable transactions, namely:-

(a) an assignment of a registered trade mark or any right in it;

(b) the grant of a license under a registered trade mark;

(c) **the granting of any security interest whether fixed or floating over a registered trade mark or any right in or under it;**

(d) the making by personal representatives of an assent in relation to a registered trade mark or any right in or under it; and

(e) an order of the High Court, District Court or other competent authority transferring a registered trade mark or any right in or under it.

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Section 15 of The Designs Ordinance, 2000 is reproduced below:-

**15. Registration of assignments, etc.-**

(1) Where any person becomes entitled by assignment, transmission or by operation of law to a registered design or to a share in a registered design, or becomes entitled as mortgagee, licensee or otherwise to any other interest in a registered design, he shall apply to the Registrar in the manner prescribed for the **registration of his title as proprietor or co-proprietor or, as the case may be of notice of his interest in the register.**

- 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:

In Pakistan, the types of Security Interests available to the parties are not laid down in the IPR Legislation. They depend on the nature and terms of agreement between the parties. All Security Interests are available to the parties so long as they are not specifically prohibited under law.

Under certain conditions, the Security Taker can assign/transfer/sell the IPR (being used as Security) in case of default.

- 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:

This is the Practice in Pakistan.

- 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:

It depends on the nature and Terms of Agreement 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.

The most commonly used security interest in Pledge.

#### 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:

The security provider will only be restricted in respect of concerned IPR (being used as Security) if it is specifically laid down in the agreement between the parties.

The IP Offices/Courts of Pakistan will effect to the will of the parties, expressed in the agreement

executed by them.

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

yes

Please explain:

Again, it will depend on the type of Security Interest agreed between the Parties. In case, the Security Interest is Mortgage, the Security Provider cannot assign the IPR (being used as Security) to any third party without the consent of the other party (Security Taker).

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)?

Kindly see our Answer to Question No 6 above.

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

yes

Please explain:

Yes this is the legal position.

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

It depends on the nature and terms of Agreement reached between the Parties (Security Provider and Security Taker).

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

It depends on the nature and terms of Agreement reached between the Parties (Security Provider and Security Taker). In General, Security Provider will maintain and Defend the IPR (being used as Security)

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.

It depends on the nature and terms of Agreement reached between the Parties (Security Provider and Security Taker). In General, Security Taker has a claim against the Security Provider.

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

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Please explain:

Novation/Alteration of contract is recognized under Pakistani Law.

#### 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:

It is not recognized under law.

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.

It is not recognized under law.

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:

Although, it may effect the jurisdiction of court, as in case there is an Arbitration clause agreed upon between the parties , the dispute will then be referred to the Arbitrator.

#### 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:

The Current IPR Regime in Pakistan facilitates the agreement entered into between the parties by providing mechanism for its recordal.

## **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:

We are of the considered opinion that our IP Laws should be amended to include the types of Security Interests available to the parties. The laws should also include specific provisions related to each type of Security Interest, to remove any ambiguity.

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:

We are of the considered opinion that the balance is in favour of Security Taker.

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)?

yes

Please explain:

We are of the considered opinion that the balance is in favour of Security Taker. There are certain situations in which Security Taker can assign/transfer/sell Intellectual Property (being used as Security).

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:

See our Answer to Question No 16 above.

### 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:

Given the complexities/intricacies of these transaction, we believe, current IPR Regime in Pakistan needs necessary amendments

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

yes

Please explain:

General Commercial Law Principles cannot be ignored in our Legal System. In any event, they will facilitate the understanding and application of law.

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

We believe IPR laws should recognize all Security Interests.

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:

It should be left to the parties.

#### 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?

yes

Please explain:

We are of the considered opinion that there should be some restriction on the rights of the Security Provider. He should not have the right to assign the IPR (being used as Security).

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

yes

Please explain:

The Assignment referred to above should only take place with the consent of 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)?

It should depend on the terms of Agreement

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

yes

Please explain:

This is normal practice in Pakistan.

- 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 Taker should be compensated by Security Provider.

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

yes

Please explain:

Novation/Alteration of contract is recognized under Pakistani Law.

#### 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?

Not Applicable.

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

no

Please explain:

The terms of the Security Interest agreement cannot override the Provisions of 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.

The Group cannot recommend any additional standard at this time.

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

The Group cannot recommend any additional comments at this time.

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

This report has been prepared after consulting several stake holders.



Summary