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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:

The Portuguese Industrial Property Code provides for the possibility of creating security interests over IPRS.

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 civil law provisions and principles rule the available types of security interests. The Industrial Property Code provides the possibility of creating security interests over IPRs and for recording them at

the Portuguese Institute for Industrial Property but does not govern the types of 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:

Although not expressly foreseen in the law as a security interest, the full assignment of an IPR can be included in an agreement as an obligation of one of the parties in the event 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:

The Portuguese law provides for security interests that authorize the security taker to realize the security interest only 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:

Our law provides that in general the security taker may use the underlying IPR only if the security provider so consents. However, the security taker must use the underlying IPR if such use is necessary to maintain the IPR in force. The use of the IPR is limited to the term of encumbrance and is not conditional upon default of the security provider. The *fructi* of the IPR shall be taken into account in the disbursements made with it by the security taker and in the interests due. If not provided otherwise, the remaining shall be deducted from the amount of the debt of the security provider.

- 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 type of security interest which is commonly used in Portugal for IPRs (patents, trademarks and registered designs) is the pledge: a security interest that authorizes the security taker to realize the security interest only in the event of default. For the pledge to be effective against third parties it must be recorded at the Portuguese Institute for Industrial Property.

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:

The security provider is not restricted in their right to use their IPR after providing a security interest over that IPR, neither in respect of their right to grant licences, nor in respect of their right to use the protected subject matter, unless otherwise agreed by the parties.

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

yes

Please explain:

Encumbered IPRs may be assigned to third parties by the security provider.

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 need to obtain consent from the security taker, unless otherwise agreed by the parties. The assignment of an encumbered IPR should be recorded with the Portuguese Institute for Industrial Property to be opposable to third parties.

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

yes

Please explain:

The encumbered IPR remains encumbered with the original security interest for the benefit of the security taker.

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

The rights of the security taker before default are the ones referred above under 3) c) as well as the right to defend the encumbered right and to require the replacement or the reinforcement of the security interest in the case the encumbered IPR lapses or becomes insufficient to secure the debt.

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

Under civil law provisions, the security taker has the duty to keep and administer the pledged thing,

responding for its existence and maintenance. Accordingly, in principle, in the case of a pledge over rights it would be the security taker who would assume the maintenance of the right in force.

The security taker should carry out all the acts required for the maintenance of the pledged right (namely the payment taxes) and to charge interests and supplementary payments included in the guarantee, unless otherwise agreed by 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.

The security taker has the right to request the substitution or the reinforcement/compensation of the pledge (or the immediate compliance of the obligation) if the (pledged) “thing”/ “right” object of pledge “perishes” (if the right expires or is revoked) or becomes insufficient for the guarantee of the debt (as it is established for the mortgage security).

On the other hand, whenever there is a well-founded fear that the pledged thing will become lost or deteriorated, the creditor has, as security taker, the faculty to proceed to the anticipated sale, but upon previous judicial authorization. The security provider can prevent the anticipated sale of the thing by offering another real genuine guarantee.

In case the pledged right expires by lack of tax payment or by lack of use, the security taker will lose rights impended also on him, namely the duty of paying the renewal tax (duty of maintenance of the pledged right). Under such circumstances the pledged right “falls”. Any claim for compensation would have to be based on negligence or bad faith, or on the terms of the agreement.

- 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?

no

Please explain:

At best, if agreed between the security provider and the security taker, the pledged right may be substituted by another right.

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:

The current law provides for conflicts of law in general terms, not specifically foreseeing as to the availability and effect of pledges over IPRs (foreign and/or national IPRs).

As a rule, the applicable law in the case of IPRs is the law of the country of their creation/protection.

However, the applicable law to the agreement should also take into account the contractual obligation at stake. Therefore, the obligations arising from a legal business are ruled by the law that the respective parties may wish to designate. Notwithstanding, under Portuguese civil law provisions, this choice can only fall over the law which applicability corresponds to a serious interest of the declarants

or is connected with any of the elements of the legal business.

- 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 applicable law as regards IPRs is the law of the country of their creation or, in other words, the law of the jurisdiction where the IPRs are protected.

- 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:

Security interests over IPRs are ruled by the law of the country of their protection as above mentioned. The contractual questions regarding the respective agreement can be governed by a choice of law clause.

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 Portuguese civil law already foresees a specific regime for the pledge over rights, determining however the application to this kind of pledge (in all that is not contrary to the specific nature of this pledge) the provisions concerning the pledge over things.

Notwithstanding, the choice by the parties of the law applicable to the agreement will be possible as specified above, i.e., having as previous assumption the existence of a serious interest of the parties or if there is any connection with any elements of the legal business.

It is not possible to create a solely contractual regime for security interests over IPRs.

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:

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

- a) are there situations in which the rights of security takers should be limited or extended (e.g. if

assignment of an encumbered IPR is possible by the security provider without involvement of the security taker)?

yes

Please explain:

The maintenance and defense of the pledged right should be imperatively and exclusively assured by the security provider of the pledged right (and not by the security taker) due to the specific nature of IPRs.

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

no

Please explain:

18) Are there any aspects of these laws that could be improved? Are there any other changes to your Group's current law that would promote transactions involving IPRs as collateral? If yes, please briefly explain.

yes

Please explain:

Specific provisions ruling the pledge over IPRs in the Industrial Property Code would be useful as one could predict and regulate the specific situations of this type of security interest.

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:

The fact that we are facing intangible rights fully justifies specific legal provisions.

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

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

At least a right of pledge.

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:

Effect of security interests

24) Should the security provider be restricted in their right to use their IPR after providing a security interest over that IPR (e.g. in respect of their right to grant licenses, or to use the protected subject matter)? If so, how?

no

Please explain:

The security provider should not be restricted in their right to use their IPR after providing a security interest over that IPR. However, there should be a fair balance between the rights and obligations of the security provider, who should be responsible for carrying out the needed actions to ensure the maintenance of the IPRs given as collateral.

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

yes

Please explain:

Yes, provided that the right of pledge is duly recorded at the time of the assignment.

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

The rights of the security taker before default should be agreed by 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 IP law should clearly state that the security provider should be responsible for maintenance and defense of the IPR provided as collateral, unless otherwise agreed between the parties.

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

If the underlying IPR expires or is revoked, the security should lapse simultaneously, except if the security provider acted in negligence or bad faith. In such case, the security taker should be entitled to gain a compensation claim against the security provider.

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

yes

Please explain:

Yes, it should be possible to modify the effects of security interests over IPRs before default by agreement, provided that those effects are not 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 country/jurisdiction where the IPR is protected due to the specific nature of IPRs. This is also in accordance with the rule proposed in UNICITRAL's Recommendation 248.

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

no

Please explain:

Only as regards contractual terms the parties should have the possibility to elect the applicable 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.

Besides a compulsory recordal of any security interests in an IP-specific register, the law should clearly establish that security interests can be created not only over registered IPRs but also over pending IPRs applications.

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

The Portuguese group would like to add that, as far as licences are concerned, the IP law should provide that, whenever a licensed IPR is subject to a security interest, the licensee(s) must be notified in writing on the existence of a security interest.

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

Summary

Portuguese IP law provides the possibility of creating security interests over IPRs. The recording of security interests over IPRs is also provided. However, the security interests over IPRs are governed by civil law provisions and principles. A predictable substantive and procedural regime in the IP law

specifically for security interests over IPRs would positively affect the security and credit transactions, namely by facilitating the use of those rights as a mean of obtaining financing and it would certainly encourage cross-border trade.

Harmonization by specific provisions in IP laws, through recording at national, regional and/or bilateral IPRs registers should also be provided.

Security interests – at least, the right of pledge – over IPRs should be available in all countries or jurisdictions.

Unless otherwise agreed by the parties, maintenance and defense of the pledged right should be exclusively assured by the security provider of the pledged right due to the specific nature of IPRs.

The law of the jurisdiction where the IPR is protected should be always the applicable law but for the contractual aspects the parties should have the possibility to choose the applicable law.