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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:

The available types of security interests are defined by specific provisions relating to security interests over IPRs in each specific IP statutes and the Act on Security over Moveable Assets and Receivables. (Specific provisions regulating security interests over trademark are prescribed in Articles 62 and 63 of the Trademark Act. Specific provisions relating to security interest over design are prescribed in Articles 108,109 and 110 of the Design Protection Act. Specific provisions relating to security interest over copyright are prescribed in Articles 45 and 47 of the Copyright Act.)

Under the Korean Patent Act, the type of security interest over patent is pledge and specific provisions regulating security interests over patent are provided under Articles 101, 121, 122 and 123. Article 121 of the KPA clearly states that where a patent, or exclusive or non-exclusive license is pledged, the pledge shall not work the patented invention, unless otherwise expressly agreed in writing.

In addition to the specific provisions under the relevant IP laws, the Act on Security over Movables and Receivables (“the ACT”) also regulates the security interests over IPR. Korea was the first country among the Commission members of the UNCITRAL to enact laws for security interests in all types of movable assets, including intellectual property. Under “the ACT”, a new registry is established for creation and perfection of security interest. The effectiveness of registration of security interest over IPR is same as that of pledge of IPR. The security registration may function as notification and certain conditions for different IPRs. Furthermore, the ACT allows IP owners to create specific secured interests on the “the pool of IPRs” as collateral to creditors/lenders/security holders.etc.

- 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:

Security interests over IPR may be characterized as a pledge rather than the full assignment of the underlying IPR to the security taker under the current Korea laws. The most common form of security granted over IPR is a pledge. Security assignments are, in practice, not widely used.

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).

no

Please explain:

The security taker may hold “interest” in the IPR which he has received from the security provider as collateral and obtain satisfaction of his claim out of the IPR in preference to other creditor provided that such interest is perfected at the Register of the official IPR registers. Korean law provides for security interest that authorizes the security taker to realize the security interest in the event of default or under justifiable circumstances.

Note that a security interest in IPR may be exercised against money or other articles which the security taker is entitled to receive, when the collateral is sold, licensed out, destroyed, damaged or expropriated for public services. A pledge may be exercised against compensation or against consideration or goods receivable in return for working the underlying IPR: Provided, that such consideration or good is attached before paid or delivered.

Note there is a restriction on disposition of right by pledgor/security provider where without consent of a pledgee/security holder, a pledgor /security provider cannot extinguish a right under the pledge, or cannot make any changes detrimental to the right of the pledgee/security holder under the provision of the Civil Act of Art.352.

For the patentee who has worked a patented invention before a pledge is granted on the patent, the patentee shall have a non-exclusive license of the patented invention, even after the patent is transferred to any third person by exercise of pledge by the security taker. (See Art. 122 of Patent Act)

- 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?

no

Please explain:

The current Korea law does not provide any specific provision that authorizes the security interest taker to use the underlying IPR. Pledge may be created on a property right except the right to use and take the profit from the IPR. Note that where a patent , copyright or a trademark right is the subject of a pledge, the pledgee, the security taker, may not work the underlying IPR **except** as otherwise provided by contract (Please see Article 121, Korea Patent Act; Article 62, Korea Trademark Act; Article 47 of the Copyright Act)

- 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 common type of security interest available is a pledge. There is no difference in the types of security interests used for different IPRs.

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:

Under the current relevant IP laws, there is no specific provision restricting the right of the security provider to use their IPR after providing a security interest over that IPR. The security provider may still grant licenses or retains the right to use the protected subject matter since the prospective licensee, for instance, will take the license subject to the pledge which is recorded at the official IP registers.

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

yes

Please explain:

Encumbered IPSs may be assigned to third parties by the security provider and the assignee is to assume the security interests over the subject IPRs.

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 security provider may have an IPR assigned provided that such pledge is registered at the IP registers.

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

yes

Please explain:

The IPR remains encumbered with the original security interest for the benefit of the security taker since the assignee will assume the pledge over the underlying IPR, for instance.

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

In general, the security taker is entitled to receive the proceeds before default when the IPR is sold, licensed out, destroyed, damaged or expropriated for public use. A security right in IP includes all proceeds from the exercise of the IP such as license fees, equitable remuneration or other compensation; provided, that they are attached/seized prior to either paid or delivered.

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 for maintenance and defense of the IPR provided as collateral.

Regarding enforcement/defense of the underlying IPR, only the security provider, the owner of the IPR such as patentees or trademark owners, for instance, and their exclusive licensees may bring infringement claims against any alleged infringer of the underlying IPR. There is no provision allowing the security taker to bring infringement action against infringers for damages or injunction to preserve the value of its security under Korean IP laws.

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 the event that IPR expires or is revoked, the security holder has compensation claim against the security provider equal to the value of the underlying IPR. The creditor will have rights to request the security provider to provide additional security where the value of the secured assets has fallen, and the power to block third party interference with the exercise of the secured rights.

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:

Any effects of security interest over IPRs before default may be modified by contractual provisions between the parties.

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 no specific statutory language that provides for conflicts of laws as to the availability and effect of security interests over IPR portfolios containing foreign as well as national IPRs.

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 is no specific statutory language that governs creation, perfection and effect of security interests over foreign IPR under the current Korea law and this is rather a murky area of law. There are two competing approaches taken- the most closely connected principle and the principle of lex loci protectionis.

As regards contracts for the assignment, security or license of IP rights, the parties are allowed to agree on the applicable law under Art 25 of the Korean Private International Act (KPIA). In the absence of choice of law, the contract shall be governed by the law of the state which has the closest connection to the contract. In this case, the state where the security provider is resident is presumed to be the most closely connected to the contract which is in line with Recommendation No 208 of the Legislative Guide (2007) which stipulates that the law applicable to the creation, effectiveness against third parties and priority of a security right in IP is the law of the state in which the grantor is located.

On the other hand, the other approach taken is the principle of lex loci protectionis under the Article 24 of the Korea Private International Act.

The majority principle which would be applied to the creation, effectiveness against third parties, priority and the enforcement of these security rights over IP is the principle of lex loci protectionis which is believed to be in line with Recommendation NO 248 stipulated in the Supplement on Security Rights in IP.

(The Von Dutch case Seoul High Court, Judgment of 8 July 2008, case no. 2007 Na 80093 gave an expansive interpretation of Art. 24 of the Korea Private International Act where the principle lex loci

protectionis would apply to all issues related to IPR including creation, extinction, and transferability in addition to the IPR infringement cases)

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:

The choice of law provision in a security interest agreement over IPRs cannot overrule the applicable law as to availability and effect.

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:

The types of the security interests as collateral the type of security interest over IPR is a pledge.

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 laws itself is very clear in its wordings. However we do not have many cases to use the security interests over IPR in Korean marketplace. When it comes to the reason of not frequent usage of the security interests over IPR, Valuation is usually uttered as the source of the uncertainty in Korean practice often times.

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:

Under the Korean laws, other than the co-owned IPRs, there is no limitation in times of assignment. The encumbered IPRs are assigned with the restrictions of the rights of securities.

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:

As is explained in Q16, Korean Intellectual Properties Office and related government authorities are interested in providing a reliable IPR valuation model for the purpose of frequent usage of the security interest over IPRs as collateral. A few suggestions are made, but not yet a generally accepted model is to be recognized. Therefore a number of IPR related transactions are made with the attached patent attorney's valuation report.

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:

In Article 121, 122, 123 of Korean patent Act, there are special provisions regarding the pledge on the patent right.

In Article 62, 63 of Korean Trademark Act, there are special provisions regarding the pledge on the Trademark right same wordings as the patent law. But NO provision is to be found same as the Article 122.

In Article 108, 109, 110 of Korean Design Protection Act, there are special provisions regarding the pledge on the Design right same wordings as the patent law.

Together with the special provisions of the IPR laws, civil law would be applied in case when no special provisions are in the IPR laws.

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?

In case of Property laws, Common law system and Civil law system have a noticeable difference. At this point, it is not easy to find an available minimum standard which is to be applied and implemented in all countries. However a standardized contract form could be worked together at a global level.

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:

For example, should patents be encumbered exclusively with pledges, should trademarks be assigned to the security taker for the purpose of security?

As is explained in Q20, Korean laws do not treat the Patent rights and Trademark rights differently basically. But there exists some subtle differences. Please refer to the Q20.

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:

Korean IPR laws do not put a restriction in their right to use their IPR after providing a security interest over that IPR. For enhancing the value of the IPRs, this approach would be better comparing to any system with the restriction in their right to use their IPR after providing a security interest over that IPR.

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

yes

Please explain:

Under Korean law, the assignee(third party) of the encumbered IPRs is obliged to assume the security interest in their IPRs.

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

Before default, the security taker is entitled to receive the license fees ONLY when he/she seizes it before they are paid or transferred.

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 is responsible for maintenance of the IPRs. If they failed, the security taker can pursue the damage. Otherwise, they can require other collateral(s) to the security provider having the same value of the IPRs under security.

- 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 taker can pursue the damage or require other collateral(s) to the security provider with the same value of the IPRs under security.

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

yes

Please explain:

These effects could be contracted out by contractual provisions. But some provisions are compulsory provisions which are prohibited by Civil Code such as Article 339.

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?

In this case, Korean case law decided that foreign law where that right was granted would be applied so called the principle *lex loci protectionis*. The Von Dutch case at Seoul High Court, Judgment of 8 July 2008, case no. 2007 Na 80093 gave an expansive interpretation of Art. 24 of the Korea Private International Act where the principle *lex loci protectionis* would apply to all issues related to IPR including creation, extinction, and transferability in addition to the IPR infringement cases.

But when it comes to the IPRs made as an employee invention, the principle *lex loci protectionis* would not be the rule to be applied. Where the employee inventions are concerned, the IPR would be governed by the law where the employer-employee contract was made. (Korean Supreme Court 2012DA4763)

- 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 generally. But in case of employee invention, a choice of law provision in a security interest agreement over IPRs can overrule the applicable law.

A choice of law provision in a security interest agreement over IPRs cannot overrule the applicable law

except for the employee invention, because the principle *lex loci protectionis* would apply as a compulsory rule.

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.

NA

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

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

We can suggest a IPR valuation standard model for the purpose of the security interest over IPRs as collateral for this Study Question in order to form a better mechanism in the context of IPR based security interest.

Summary

In Korea, Specific provisions regulating security interests over Intellectual Property Rights (“Intellectual Property Rights” and “IPRs” are interchangeable for the current purpose) are prescribed in Articles 101, 121, 122 and 123 of the Patent Act, *Articles 62 and 63 of the Trademark Act, Articles 108,109 and 110 of the Design Protection Act, and Articles 45 and 47 of the Copyright Act*. The type of security interest over patent is pledge and unconventional types of security interest over IPRs are to be created in connection with some form of repurchase right and so on. Adding to these provisions, the Act on Security over Moveable Assets and Receivables was enacted in 2011 and this law prescribes that IPRs are to be securitized under the provision of each IP laws.

Up to now, there are no sufficiently established precedents in securitizing the IPRs. The reasons of seldom usage of the security interests over IPR could be plural, but valuation is usually uttered as the main reason and the source of the uncertainty in Korean practice often times. Korean Intellectual Properties Office and related government authorities are interested in providing a reliable IPR valuation model for the purpose of frequent usage of the security interest over IPRs as collateral. A number of suggestions are made, but no generally accepted model was created and recognized. If harmonization was discussed in order to promote the utilization of the security interests over Intellectual Property Rights, valuation would be the first topic in our opinion.