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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:

Yes, this possibility is expressly provided by Spanish Law.

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 types of security interest that may be constituted over IPRs are provided by specific legislations regulating the IPRs, in particular they are contained in the Spanish Act on Mobile Mortgages and

Nonpossessory Pledges of 1954 ("SMMA", hereinafter); in the still in force Spanish Patent Act of 1986 ("SPA", hereinafter) (art. 74), in the Spanish Patent Act of 2015 (art. 82); in the Spanish Trademark Act of 2001 (article 46.2 et seq.) and in the Spanish Act on Industrial Design of 2003 (art. 59).

Notwithstanding the above, there are general provisions laid down in Civil/Commercial law about available security interest which may be applicable to IPRs as well.

- 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:

The SPA/1986 establishes that *hipoteca mobiliaria* (which is very similar, but not identical to a chattel mortgage and hereinafter will be referred as "Spanish mobile mortgage") may be constituted over a patent (art. 74), not including any other type of security interest as possible alternative.

The articles 46.2 Spanish Trademark Act, art. 59.1 Spanish Act on the Industrial Design and 82.1 SPA are much more flexible and allow the constitution of any type of security interest (Spanish mobile mortgage is referred only by way of example).

Art. 45 SMMA provides the possibility of creating this security interest over any IPRs.

The *commisoria lex* clause (fiduciary transfer of ownership) is, in principle, forbidden by Article 1859 of the Spanish Civil Code. Thus the assignment to a creditor may be invalidated if it allows the security taker to conduct acts of disposition without observing the due legal precautions.

However, it seems admissible the constitution of an option subject to an event of default of the security provider, who in principle would remain as the owner of the IPR.

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:

Both in the pledge and in the Spanish mobile mortgage it is allowed to realize the pledged /mortgaged asset in the event of default of the secured obligation, but not solely. Further, the asset may be realized when maintenance obligations of the secured asset are breached (for instance, non-payment of the renewal fees or lack of exploitation of the IPR).

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:

Although it is not expressly regulated, it would be possible to constitute a secured usus fructus over an IPR. Art. 469 Spanish Civil Code allows the constitution of a conditioned usus fructus (for instance, a resolutive condition which results in the fulfilment of the secured obligation).

A different question would be whether the Spanish Patent and Trademark Office ("SPTO", hereinafter) allows the recordal of such secured usus fructus right, which is required in order to allow the usufructuary to exercise the exclusive right against third 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 security interest over IPR most commonly used is the Spanish mobile mortgage, since it offers a greater degree of legal security to the parties and, specially, to the security taker (creditor). This is because, due to its formal requirements (article 47 SMMA), the right over the security interest is constituted shall be identified through date and record number, owner and legal status (other security interests, licenses granted to third parties, justification of being up to date with fees payments), among others, and it will be subject to record and publication by the Registry.

According to article 74 SPA, the patent application and the patents granted may be subject to security interests solely through the constitution of a Spanish mobile mortgage, without other security interests being allowed by law.

Conversely, the legislation concerning trademarks and designs provide respectively that these IPRs may be subject to security interests, without indicating specifically which type of security interests.

However, both regulations establish that, in case a Spanish mobile mortgage is constituted over these IPRs, the requirements provided by the law concerning Spanish mobile mortgages shall be observed.

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:

In the rules governing Spanish mobile mortgages there is not an express provision, forbidding that the owner of an IPR uses it. It does provide (articles 17 and 18 SMMA) that its maintenance shall be carried out diligently and, in case there is a depreciation not due to a fortuitous case, the security taker (creditor) may request to the Court to intervene in the administration of the right.

It is provided (article 48 SMMA) that the owner of the IPR (debtor) will not be able to assign its use or exploitation, either totally or partially, without the authorization of the security taker (creditor).

Consequently, the owner of the IPR will not be able to grant a license for use without the authorization of the security taker (creditor).

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

no

Please explain:

The rules governing the Spanish mobile mortgage expressly establish that the rights encumbered by a Spanish mobile mortgage cannot be object of assignment in favour of third parties without the authorization of the security taker (creditor).

However, it is possible to constitute a new Spanish mobile mortgage over the right already mortgaged. For this, it is not required the authorization of the security taker (creditor) and, in case it has been agreed this prohibition, the law considers void this agreement (article 2 SMMA).

Notwithstanding the foregoing, the second Spanish mobile mortgage will not affect to the security taker's right in case he / she realizes it, since the second Spanish mobile mortgage would have an inferior mortgage rank.

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)?

For the Spanish mobile mortgage constituted over IPRs, article 48 of SMMA is clear when indicating that the owner of the IPR cannot waive its right, nor assign its use (licensing) of exploitation, totally or partially, without the authorization of the security taker (creditor).

Further, this security interest may be held against bona fide third parties (such as the possible acquirer of the IPR encumbered with a security interest) solely once it has been recorded in the corresponding register (on analogical application of article 606 Spanish Civil Code, and by virtue of article 68 SMMA, articles 46.2 and 3 Spanish Trademarks Act, article 79.2 SPA and article 59.2 Act on Industrial Design).

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

yes

Please explain:

Indeed, it is presumed that the bona fide acquirer of the IPR encumbered with a security interest duly recorded in the corresponding Registry, and by virtue of the publicity principle, knows the existence of such security interest and succeeds the legal position of the prior security taker, who previously shall have authorized such assignment.

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

In the event of default of the obligation secured by the security interest, the security taker may deem expired the obligation and proceed to realize it (articles 81 to 91 SMMA). In the same vein, such security taker may deem expired the obligation secured with the security interest and proceed to realize if the owner of the encumbered right (i) does not pay the maintenance fees of it (article 51.1 Act

SMMA) or (ii) does not exploit the patent for a period exceeding 6 months or (iii) does not use the trade mark during 4 consecutive years (article 51.2), unless it has been agreed differently.

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

The owner of the encumbered IPR is obliged to maintain his/her right, which means that he/she cannot waive it, either expressly or implicitly (not applying for the renewal or not paying the fees in trademarks and designs, or not paying the granting fees and the annuities of patents and utility models, as the case may be) according to article 48 SMMA. However, if the security interest is recorded in the SPTO, it cannot be declared the expiry of the trademark or industrial design due to lack of renewal application and/or of the corresponding fees payment, nor declared the expiry of a patent or an utility model due to lack of payment of the grant fees or annuities, or due to lack of *restitution in integrum* of any of such rights, without having notified previously the security taker of such circumstances, in order to allow him to exercise by himself such rights, according to article 50 SMMA (article 56.2 Spanish Trademarks Act and article 73.2 Act on Industrial Design, which broadly regulate this matter and that, according to our understanding, complement analogically the sparing article 118.4 SPA).

In regard of the defence of such right, and in particular with respect to the exercise of infringement actions (declarative, cease, general damages, damages due to acts carried out between the date of publication and the granting date and, finally, the publication of the judgment), the right to bring such actions corresponds exclusively to its owner (article 40 Trademarks Act, article 52 Act on Industrial Design and article 62 SPA) and to the exclusive licensee ex article 124 SPA. In this context, the security taker cannot exercise these actions, unless otherwise agreed between the owner of the IPR and the security taker.

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 legal consequence is the expiry of the security interest.

However, in order to avoid that the inactivity of the security provider harms the creditor, the Spanish Trademarks Act, the SPA and the Spanish Act on Industrial Design establish that, as long as the security interest is recorded before the SPTO, it cannot be declared the expiry of the IPR due to lack of payment of the corresponding fees nor due to lack of renewal, without having notified the security taker. In this case the security taker may carry out these payments or renewals in order to avoid the expiry of the security interests due to loss of the encumbered asset.

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:

No. It will be considered null and void any contractual clause that contradicts the legal consequences established by an imperative rule.

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 possibility of conflict of law since the Spanish Civil Code (art. 10) establishes that the IPR constituted in accordance with Spanish law will be furthermore governed by Spanish law. Hence, any security interest granted abroad, affecting to an IPR registered in Spain shall comply with Spanish law in order to be recorded in Spain.

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 is the law of the place of protection (*Schutzland* in the German expression), that is the law according to which the security interest has been constituted. In the example, it would be the law of United States (art. 10.1 and 10.4 Spanish Civil Code).

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, the security interests are *numerus clausus*. The efficacy is also governed by the applicable law to security interests.

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 sense of security interests is the possibility to invoke them against third parties. The parties may agree inter partes covenants or obligations, but they will not have effect, for instance, on bankruptcy cases.

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, it may be said that the law in force offers legal security and a reasonable degree of predictability, since the applicable law establishes in a reasonable detailed and understandable form aspects such as (i) the specific types of security interests over the different IPRs (Spanish mobile mortgage); (ii) the basic requirement for its constitution (public deed, indications that it shall contain, etc.); (iii) as well as

the basic rights and obligations of each party (assignment regime of the encumbered right, etc.). All this leaving at the same time certain room for the freedom of will and offering therefore the possibility to reach an agreement on certain aspects of the legal relationship such as the so called antichretic agreement of article 49 SMMA.

Further, in regard of aspects not expressly regulated in the specific provisions related to Industrial Property, such as the credit priority, the realisation of the security interest, etc. these are sufficiently described by the common dispositions of SMMA, the Spanish Civil Procedure Code, etc.

In addition, the obligation to formalize a deed of a Spanish mobile mortgage offers to the parties of the legal relationship the security provided by a public instrument where a notary has taken part.

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)?

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:

Yes, we do believe that there is an adequate balance between the rights of the security taker and the debtor. Further, the parties have some room of manoeuvre to modulate, through agreements, certain faculties. In particular, as it has been indicated in question 7, the debtor will not be able to assign the use or exploitation of the encumbered right unless he /she has the authorization of the security taker (art. 48 SMMA, which also forbids waiving the right without the proper authorization). On the other hand, the security taker shall, in principle, tolerate any license prior to his / her right; these licenses have to be included in the deed by virtue of article 47 SMMA. The foregoing without prejudice that, through an agreement with the debtor, the security taker may have the faculty of collecting the outcome of these licenses, following certain rules of imputation of relevant amounts (art. 49 SMMA concerning the already mentioned antichretic agreement).

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.

no

Please explain:

It may be interesting to introduce an express provision in regard of the right of the security taker to take legal actions against possible infringers of the IPR. In particular, establishing concrete legal actions, that enable the security taker to take acts against any kind of infringers. For the time being, it could be understood that this prerogative is contained in the combination of articles 27 and 25 SMMA (related to mortgages over trading establishments) which establish: (i) the debtor's obligation to involve the creditor in any damaging act and (ii) the faculty of the security taker to initiate the actions which the debtor has not exercised. Also, it could be similarly understood by analogical application of the article 124 SPA: the exclusive licensee, unless otherwise agreed, may initiate legal actions. However, this possible interpretation has not been applied so far by Spanish Courts.

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:

Yes, it seems the most appropriate, taking into account the particularities of the IPR (intangible character, not subject to possession, registration, maintenance/renewal need, etc.). This does not mean that the sectorial legislation shall contain each and every aspect of this matter (for instance, the procedural aspects may be regulated in the general procedural laws, etc.) but rather the essential elements such as the different types of security interests, requirements/procedures for its constitution, registry and legal position of the parties.

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

no

Please explain:

(It does not seem necessary to answer to this question)

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

At the very least it should be valid those security interests that offer the parties greater legal security, as well as are valid against bona fide third parties, being therefore subject to record in the corresponding register.

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. In the interest of greater harmonization, the law should be applied equally for every type of IPR. In this sense, the law should regulate the different security interests allowed in order to be applicable to every type of IPR, ensuring the parties a greater degree of legal security.

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:

The owner of an IPR should be obligated to maintain diligently the encumbered IPRs. However, he / she should not be restricted in his / her right to use the encumbered IPR.

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

no

Please explain:

No. The Spanish legal system forbids the *commisoria lex* clause (art. 1859 Spanish Civil Code). It forbids the clause by which the creditor acquires ownership of the secured asset.

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

In the event of default, the security taker may realize it. The security taker cannot initiate infringement actions, unless is a licensee and complies with the requirements established in article 124 SPA. The amounts received for infringement are subject to the payment of the security interest (art. 5 SMMA). It may be agreed that during the life of the security interest, the royalties are perceived by the security taker (they would be assigned to the payment of interests or, where appropriate, of the principal amount).

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

no

Please explain:

No. The security taker may cover the maintenance costs if the owner of the IPR does not defray them, with a reimbursement right together with the legal interest (art. 50 SMMA)

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 interest expires. The security taker would still hold the underlying credit claim.

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

no

Please explain:

No, these are imperative rules.

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?

It shall be applied the law according to which the security interests have been constituted (*Schutzland*), by virtue of art. 10.1 and 10.4 of the Spanish Civil Code.

- 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, it can only regulate the *inter partes* contractual aspects, without displacing the regulation applicable to the security interest.

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.

In our opinion, the harmonization is very challenging, given the strict territorial character of these rights. In any event, we consider that the aspects we already mentioned in questions 18 and following should be taken into account in an eventual harmonization.

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

There are no additional aspects.

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

We have not considered any sector in particular

Summary

In Spain, specific regulations concerning IP expressly allow constituting security interests over Intellectual Property Rights (IPRs). In particular, patents may be secured with *hipoteca mobiliaria* (similar to a chattel mortgage), whereas other IPRs may be secured with any type of security interests. Conversely, security interests which imply the full assignment of the underlying IPR to the security taker are, in principle, forbidden.

Once a security interest is constituted, the owner of the IPR may continue with its exploitation, but shall not assign its ownership or use to third parties without the authorization of the security taker. Further,

the owner is obliged to maintain the IPR, which means that he/she cannot waive the IPR expressly or implicitly. In the same vein, the defense of the IPR corresponds exclusively to its owner and to its exclusive licensee; thus the security taker cannot exercise infringement actions.

In regard of the applicable law, Spanish law will govern any IPR constituted in accordance with Spanish law. Security interests granted abroad, affecting an IPR registered in Spain, shall comply with Spanish law in order to be recorded in Spain.

The Spanish AIPPI Group considers that Spanish law concerning security interests over IPRs offers a reasonable degree of legal security and predictability. However, given the increase of international transactions, it would be desirable a harmonization that, at least, approximates the basic instruments and provides with equivalent definitions.