



Submission date: 19th May 2016

## 2016 – Study Question (General)

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**Security interests over intellectual property**

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Date	19-05-2016

### 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:

See question 3 below for a description of the types of security available in respect of IPRs under UK law. (Note that in answering these questions we will refer to "UK law" to mean the various laws of the countries of the United Kingdom (such as England and Scotland). While some laws governing IPRs are UK wide, there is more than one system of laws in the UK.)

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:

This question cannot be answered "yes" or "no". Both IPR-specific provisions and general principles concerning personal property comprise the UK legal framework for security interests over IPRs. In particular:

- **General** - Part 25 of the Companies Act 2006 (the primary source of UK company law) provides that a company registered in England, Wales or Northern Ireland can grant a charge, including a mortgage, over its assets - expressly including any patent, trade mark or registered design (s860). The Act also establishes a system for the recordal, on the charges register maintained by Companies House, of any charge granted over a company's assets (including, but not limited to, IPRs). Failure to record the charge on this register within 21 days of its creation results in the charge being void against any liquidator, administrator or creditor of the company (s874).
- **Patents** - S30 Patents Act 1977 provides that any patent or patent application may be mortgaged. "Mortgage" is defined to include any charge for securing money or money's worth (s130).
- **Trade Marks** - S24 Trade Marks Act 1994 provides that a registered trade mark or application for a registered trade mark may be the subject of a charge (not further defined) in the same way as other personal or moveable property, and can be assigned by way of security.
- **Registered Designs** - S15B(6) Registered Designs Act 1949 provides that a registered design or application for a registered design may be the subject of a charge (not further defined) in the same way as other personal or moveable property, and can be assigned by way of security.

Under English common law, security interests that require the security taker to have possession of the secured asset (e.g. a pledge or possessory lien) are unavailable in respect of all types of intangible property, including IPRs. This was recently confirmed by the Court of Appeal in *Your Response v Datateam* [2014] EWCA Civ 281 in respect of a lien over a database.

- 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:

The two key types of security interest under UK law are a mortgage (which can be legal or equitable) and an equitable charge (which may be fixed or floating):

- **Mortgage:** A mortgage involves the transfer of title to an asset by way of security for particular obligations, on the condition that it will be re-transferred when the secured obligations are discharged (known as the "equity of redemption"). There are two types of mortgage:

1. **Legal Mortgage:** Under a legal mortgage legal title to the IPR is transferred from the security provider to the security taker, subject to the equity of redemption. This transfer of title is advantageous for the security taker as it: (i) preserves the lender's priority (as no third party purchaser without notice can achieve priority over the lender's rights); and (ii) prevents the security provider from disposing of the IPRs, as it does not have title to do so (in each case, where applicable, subject to registration of the security on the relevant IP registers, (see further below)).
2. **Equitable mortgage:** An equitable mortgage arises where either (i) the formalities to create a legal mortgage have not been completed (e.g. the requirements under s30(6) Patents Act 1977,

s24(3) Trade Marks Act 1994 and s15B(3) Registered Designs Act 1949 that an assignment of a patent, trade mark or registered design respectively be in writing and signed by the assignor); (ii) the asset being mortgaged is only an equitable interest; or (iii) the mortgage is granted over future registered IPRs (i.e. registered IPRs or applications for registered IPRs which do not exist at the time of the creation of the security but are registered or applied for during the term of the security interest). An equitable mortgage only transfers a beneficial interest in the asset to the security taker with legal title remaining with the security provider.

**- Charge:** A charge (which can only exist in equity) is a security interest created without any transfer of title or possession of the underlying asset. Instead, a charge represents an agreement between a security provider and a security taker under which the security taker has a right to resort to the asset to realise it towards payment of the debt. A charge can therefore be thought of as an encumbrance over an asset. Charges can be fixed or floating:

1. **Fixed charge:** A fixed charge attaches immediately to the charged asset and gives the security taker control over it. Control is the key characteristic of a fixed charge - if the security taker does not have sufficient control over the charged asset, the charge will be floating and not fixed, however it is described. Preventing the security provider from freely disposing of assets subject to a fixed charge is crucial to the nature of a fixed charge. In the case of IP, the security provider should also be prohibited from granting licences to third parties to use the secured IPRs without the consent of the security taker.
2. **Floating charge:** A floating charge sits above a shifting pool of assets. It is a charge on an identified class of assets, present and future, belonging to a security provider. The class of assets may be one which, in the ordinary course of the security provider's business, changes from time to time. When a floating charge is taken, it is contemplated that until some future step is taken by or on behalf of those interested in the charge, the security provider will carry on its business in the ordinary way in relation to that class of assets, including disposing of some such assets and acquiring others. Once a specific event occurs, usually default by the security provider, then the floating charge crystallises and a fixed charge comes into effect over the IPRs within the relevant class.

The security provider's freedom to deal with the assets under a floating charge presents the lender with the problem of how to stop the security provider from disposing of all the assets secured by the floating charge, leaving it as a shell, before the charge crystallises. However, in spite of its inherent weakness, it is useful for a security taker to take a floating charge where possible, either on its own or in addition to fixed charges. This is because a floating charge acts as a catch-all, sweeping up any IP assets which are not caught by a fixed charge for any reason. It also enables a security taker to take security without unduly restricting or affecting the security provider's ability to carry on its business, particularly where that business involves the regular acquisition and disposal of assets within the relevant class.

None of the types of security which are available to secure IPRs under UK law allows the security taker, without more, to fully acquire the secured asset - even on the event of the default by the security provider.

However, if the security taker is the holder of a legal or equitable mortgage, the remedy of "foreclosure" may be available. This is the process under which the security provider's right of redemption is extinguished and the secured asset becomes fully vested in the security taker, enabling it to use or dispose of the secured asset. However, the mortgage holder must apply to court for an order for foreclosure. This is a two stage court process and the mortgage provider must be given time to pay after the first stage and so prevent the second. Moreover, the court can order that the secured property be sold in any foreclosure action. Foreclosure is one of the oldest powers available to a security taker. However, it is now rarely used in practice as it is time consuming and expensive; controlled by the court not the security taker; and, by foreclosing, the security taker loses the right to

claim for the debt owed to it by the security provider - so it is then unable to recover any amount of the secured liabilities that exceeds the value of the secured property. Foreclosure is not available to the holder of a charge (whether fixed or floating).

There are no other rights (i.e. types of security interest or remedies on the default of the security provider) under which the security taker acquires unencumbered title to the secured IPRs, whether during the term of the security or on default.

More common remedies for a security taker on the default of the security provider is the exercise of its power of sale or power to appoint a receiver to sell (see further below).

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:

Security takers that have taken security by way of mortgages (legal or equitable) and charges (fixed or floating) may, in the event of the default of the security provider, have either: (a) a power to sell the secured IPRs; or (b) to appoint a receiver to sell the secured IPRs.

A power of sale is a statutory remedy under s101 Law of Property Act 1925 which is available to the security taker (mortgagee or chargee) where the security document is made by way of a deed. However, as the statutory rights of the security taker are fairly weak (e.g. the power of sale can only be enforced where the principal or interest has been overdue for significant periods or where the security taker has otherwise breached the security agreement), these restrictions are typically excluded in security documents and an express contractual power of sale included instead. Nevertheless, it is relatively rare for this power to be exercised in practice as the security taker has a duty of care to the security provider in such circumstances and risks personal liability if it does not properly discharge this duty (including by e.g. obtaining a proper price for the secured asset) when exercising its power of sale.

It is therefore much more common for the security holder to appoint a receiver in such circumstances to take control of, and to sell, the secured assets. A statutory power to appoint an out-of-court receiver is implied by s101(1)(iii) Law of Property Act into mortgages and charges of property, where the security document is made by way of a deed. However, again, it is unusual for the parties to rely on these statutory powers and an express power to appoint a receiver is usually included in any well-drafted security document. The status of the receiver in these circumstances depends on the security documentation, however, it is typical for the receiver to be appointed by the security taker, but to act as the agent of the security provider. The receiver's primary function is to ensure payment of the debt owed to the security taker, usually by way of sale of the secured property.

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:

*Usus fructus* rights are not recognised under the laws of the UK, and none of the types of security that is available for IPRs in the UK is characterised by a right for the security taker to use and/or realize proceeds from the exercise of the IPR during the term of encumbrance.

As IPRs are capable of comprising an asset pool that generates a cashflow (e.g. patents or trade marks licensed to third parties in return for an annual fee), they can be “securitised”, i.e. used as the basis of a securitisation loan which is repaid with the proceeds of that cashflow. However, securitisation is a type of financial structuring rather than a security interest as such, it is not considered further in this response.

- 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.

As noted in question 2 above, security interests that require the security taker to have possession of the secured asset (e.g. a pledge or lien) are unavailable in respect of intangibles like IPRs.

As between those security interests that are available for IPRs in the UK (i.e. mortgages and charges), it is in practice more common for a charge to be taken over IPRs.

This is because a mortgage necessarily involves the transfer to the security taker of title to the relevant IPRs. This makes it difficult for the security provider to exploit and enforce the IPRs, as these activities generally rely on title. There are also a range of obligations that are necessary for the survival of the relevant IPR (e.g. the payment of maintenance and renewal fees) and these are best not left with the security taker - who may not be an expert in these matters. So, mortgages over IPRs can “cripple the property” if not mitigated in some way. Mitigation could take the form of an agreement between the security taker and the security provider under which the security taker grants back to the security provider an exclusive licence to use the secured IPRs during the term of the security, and which contains detailed arrangements addressing each party's rights and responsibilities in respect of the administration, maintenance and enforcement of the secured IPRs. However, the requirement for this documentation, together with the transfer the secured IPRs from the security provider to the security taker on the grant of the security and the transfer back on the satisfaction of the secured obligations, can be seen as unnecessarily complex and time consuming - and, in some cases, disproportionate to the advantage gained.

As a charge does not involve the transfer of title to the secured assets, no such difficulties arise. The security provider retains the right (subject to any contractual restrictions in the security documentation) to administer, exploit and enforce the IPRs. In addition, as a charge is an equitable right, it can (unlike a mortgage) be granted in respect of existing *and future* IPRs - i.e. those created or acquired by the security provider during the term of the security. Accordingly, a charge is often viewed as a more flexible and efficient solution for security providers and security takers alike, and is therefore more commonly used in practice.

Note that there are reasons (relating to the preservation of the priority of the security interest) why a security taker may prefer to take a mortgage, and not a mere charge, in respect of unregistered IPRs such as copyright. However, this analysis is outside the scope of this study question, in which the relevant IPRs are limited to patents, trade marks and registered designs.

#### 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:

This question cannot be answered "yes" or "no". In each case, the answer depends on the type of security interest provided over the relevant IPR (it is not necessarily the case that the security provider is so restricted).

**Legal mortgage:** A security provider that has granted security by way of a legal mortgage (a "mortgagor") has transferred the legal title in the secured IPRs to the security taker (a "mortgagee"), subject to the equity of redemption. So, the mortgagee, as the holder of the legal title in the mortgaged IPRs, has the right to control the use of the secured IPRs by the mortgagor, including its rights to grant sub-licenses to third parties. It is typical, therefore, in any circumstances where the mortgagor needs to exploit the work during the term of the mortgage, for the security documentation to include an express grant back to the mortgagor of a licence to allow for this.

**Equitable mortgage and charge (fixed or floating):** For each of these types of security, the security provider is free to continue to use the secured IPRs, and to grant sub-licences to third parties to do the same, subject to any contractual restrictions contained in the security documentation. However, if the security is granted by way of a fixed charge, the security documentation will necessarily restrict the security provider from granting sub-licences to third parties in respect of the secured assets without the consent of the security taker - or the charge is likely to be interpreted as a floating charge (which is disadvantageous for a security taker, as the holder of a floating charge ranks lower than the holder of a fixed charge on the insolvency and liquidation of the security provider.)

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

yes

Please explain:

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 answer to this question is complex.

In the UK, the laws which govern registered IPRs establish a special priority rule under which the priority of transactions affecting such IPRs is established by registration. In particular, under s25 Trade Marks Act 1994, s33 Patents Act 1988, and s19 Registered Designs Act 1949, until a transaction which creates a security interest over an IPR has been recorded on the relevant IP register maintained by the UKIPO, the transaction is ineffective against a person acquiring a conflicting interest in or under the relevant IPR in ignorance of it.

**Legal mortgage:** Where the security interest is granted by way of a legal mortgage, the mortgagor has transferred its title in the mortgaged IPR to the mortgagee. Accordingly, as a matter of general law, the mortgagor is not legally capable of transferring title in the mortgaged IPR to a third party. However, where the mortgage has not been registered on the relevant IP register, it will be ineffective against a third party acquiring a conflicting interest in the mortgaged IPR in ignorance of the mortgagee's rights in it. This means that if the mortgage is not registered, it is possible for the mortgagor to assign the mortgaged IPR to a third party, and, provided that (i) the third party does not have notice of the mortgage, and (ii) registers its own interest on the relevant IP register before the mortgagee does so, the third party will acquire the IPR free from the mortgagee's interest in it. However, if the earlier mortgage is registered on the relevant IP register, the mortgagor will not be legally capable of assigning the mortgaged IPR to a third party.

**Fixed charge (and equitable mortgage):** Conversely, where the security interest is granted by way of a fixed charge, there is no transfer of title to the charged IPR from the chargor to the chargee. So,

the chargor remains legally capable of transferring title to the charged IPR to a third party. As a matter of general law, where that third party is a *bona fide* purchaser for value without notice of the chargee's interest, it could acquire the charged IPR free from the encumbrance represented by the charge. However, if it had notice of the security interest, it would acquire the IPR subject to it. This position is varied to some extent by the statutory rules relating to registration and priority. If the earlier security interest is unregistered, the position stays the same in respect of any later third parties acquiring a conflicting interest, including assignees. However, if the security interest is recorded on the relevant IP register, that recordal provides constructive notice to the world, meaning that no third party purchaser can be in the position of a *bona fide* purchaser for value without notice. All third parties assignees would therefore acquire the charged property subject to the charge. The position is the same in respect of assignments of IPRs under equitable mortgages.

In respect of both mortgages and fixed charges, further complication arises from the fact that, if the security provider is a company incorporated in the UK, the security interest must also be registered on the charges register maintained by Companies House (see question 1 above). It is possible that this registration will provide constructive notice of the security interest to any third party purchaser. However, this is not clear from the current jurisprudence, and there are no statutory provisions that coordinate the two registration regimes.

Note that charging documents will typically impose contractual obligations on the security provider not to assign the charged IPR to third parties without the consent of the security provider.

**Floating charge:** Where the security interest is granted by way of a floating charge, the charge does not crystallise over the pool of charged assets until an event of default, which means that the chargor is capable of assigning, and entitled under the security agreement to assign, the charged IPRs at any time (prior to its default) during the term of the security arrangement, and the assignee will acquire title to the relevant IPR free from the security interest.

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

no

Please explain:

This is not necessarily the case. Please see question 7(a) above.

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

**Mortgage (legal or equitable):** The legal or equitable mortgagee, as the legal or equitable owner of the mortgaged IPR, is entitled to institute infringement proceedings in respect of the relevant IPR in order to protect his interest in it (provided that it also joins the mortgagor to the proceedings, whether as claimant or defendant). It does not, however, have the right to any other proceeds of the mortgaged IPR (e.g. licence fees), during the term of the security arrangement, other than any contractual rights it enjoys under the relevant security documentation.

**Charge (fixed or floating):** The chargee (under a fixed or a floating charge) has no rights to enforce or enjoy the proceeds of the charged IPR prior to default, other than any contractual rights it enjoys under the relevant security documentation.

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

**Mortgage (legal or equitable):** Broadly, as a mortgage involves the transfer of title to the mortgaged IPR from the mortgagor to the mortgagee, the mortgagee assumes all of those rights and responsibilities associated with ownership of the mortgaged assets. This typically involves the responsibility to maintain and defend the mortgaged IPR. However, as the mortgagee may be a financial institution with limited expertise in this area, it is often not in either party's interests for such responsibilities to lie with the mortgagee. Typically therefore, the security documentation will oblige the mortgagor to maintain the mortgaged IPR and to defend and enforce it, subject to the rights of the mortgagee to be notified, and to provide directions, in respect of any such defence or enforcement action.

Moreover, equity regards a mortgagee as having only a security interest in the mortgaged property, and regards the mortgagor as the beneficial owner, subject to the security interest. This means that the mortgagor also retains the right to bring proceedings for damage to the mortgaged property. In some cases, the mortgagor has been permitted to bring such proceedings without joining the mortgagee (e.g. *Van Gelder v Sowerby Bridge United District Flour Society* 1888 V 774, mentioned with approval in *L/M International Construction Inc. v Circle Limited Partnership* 49 Con. L.R. 12 (1995)).

Given the overlapping rights of the mortgagor and mortgagee, it is prudent to expressly agree the nature and extent of each parties rights and obligations in respect of the maintenance and defence of the mortgaged IPR under the security documentation.

**Charge (fixed or floating):** Conversely, as a charge (fixed or floating) involves no transfer of title to the charged IPR, the responsibility for the maintenance and defence of the IPR remains with the chargor. However, given that the chargee has a significant interest in the chargor maintaining the value of the charged IPR, it is typical for the security documentation to expressly set out the chargor's rights and obligations in respect of the maintenance and defence of the charged IPR.

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.

Under each of the types of security interest available in respect of IPRs under UK law, there are no consequences which automatically occur if the secured property expires or is revoked. The security taker takes the risk of these occurrences. In practice therefore, a lender will typically (i) conduct due diligence in respect of the security package to assess its value and suitability as security; and (ii) require warranty and other contractual protection from the security provider under the relevant security documentation.

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:

UK law provides broad flexibility for the security provider and the security taker to agree on the terms of their security. Most of the rights and obligations on each party in the position of mortgagor/chargor or mortgagee/chargee can be varied by contract. This is subject to the fact that any such variation that changes the essential characteristics of any security interest (as described at question 2 above) is likely to result in that security interest being interpreted as a different type of security interest, which may, in turn, have an impact on the remedies available to the security taker on the default of the security provider. For example, a fixed charge that does not prevent the chargor from freely assigning or licensing the charged IPR is very likely to be viewed by the UK courts as a floating charge, and to restrict the chargor's remedies to those remedies that are available to floating charge holders and to assess its rank *vis-a-vis* other creditors of the security provider on the default of that security provider



as if it had taken a floating charge (*National Westminster Bank v Spectrum Plus Ltd* [2005] UKHL 41).

#### 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 position in the UK is that security interests over IPRs are subject to the laws of the country in which the relevant IPR subsists. By way of example, if the national law of country A provides that a patent registered in country A cannot be the subject of a security interest, then UK laws do not make it so. Similarly, if the law of country A provides that the only permitted security interest is one made under the law of country A, then UK law does not override that.

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 laws of the country of creation of the relevant IPR apply to the creation of security interests (see question 12 above).

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:

See question 12 above.

#### 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:

UK law provides significant flexibility for the security provider and security taker to agree the terms of their security arrangements. However, it is not possible to create a solely contractual regime for security interests over IPRs. While it may be possible to strengthen or exclude, by contract, the statutory remedies that are available to a security taker on the default of the security provider, there are various statutory provisions that cannot be excluded, e.g. the requirement to register the security interest on the charges register maintained by Companies House and the consequences of failure to record the security interest on that register and/or on the specialist IP registers. In addition, if the defaulting security provider is also insolvent, the various protections (for the security provider and its other creditors) under the Insolvency Act 1986 will apply and cannot be excluded by contract. As such, the applicable statutory regime cannot be entirely excluded or ignored. Moreover, the effectiveness of any contractual arrangement will depend on the IPR being capable of bearing such an interest.

In practice, a number of alternative approaches (i.e. other than a charge or mortgage directly over the

IPR) are utilised by borrower and lenders. These include e.g. (i) transferring IPRs into a special purpose vehicle and offering the shares in that vehicle as collateral (which can be a flexible and effective way of taking security over IPRs, although it typically has higher transactional and operational costs than charging/mortgaging the IPRs directly); and (ii) the securitisation of cash flows backed by IPR assets (see question 3 above) - although this does not comprise the grant of a security interest as such.

**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:

UK law provides a flexible, rich and varied scheme for the taking and provision of security. It has a long historical basis and, generally, well-developed case law. It is, however, highly complex and not readily accessible to non-lawyers or those in other jurisdictions. In addition, there are some difficulties inherent in the existing system, including the lack of clarity regarding the overlapping rights of the security provider and security taker to take steps to maintain the value of the secured IPR (e.g. by pursuing infringers), and potential uncertainty and inconsistency caused by the special priority rule for registered IPRs (where registered interests are favoured over earlier unregistered interests, see question 3 above) and the dual registration systems for IPRs (i.e. on the charges register maintained by Companies House and the specialist IP registers, see further at question 18 below). In the latter case, the existing registration system does not make it easy for interested parties to ascertain whether a debtor's assets are already subject to any relevant prior encumbrances, nor to secure priority against possible competitors (see further at question 18 below).

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 current law in the UK is sufficiently flexible for the security taker and the security provider to negotiate and agree the appropriate type of security interest(s) and the rights and obligations of the respective parties in all of the particular circumstances and in order to reflect each party's respective bargaining positions.

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 question 17(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:

As a result of the long history of commercial lending in the UK under the common law and statutes from the early Twentieth Century, the position is complex. While there would be benefit in simplifying the position, significant reform would require an in-depth study of both the UK laws governing secured transactions as a whole and the use of IPRs in that context – including the inter-relation between the general law of the UK and specific rights for IPR – and this would be a substantial task. Significant reforms relating to IP alone would risk causing confusion where the rules for IPRs differ substantially than for any other secured assets.

In respect of IPR-specific reforms, there are two key areas in particular where further clarity would be welcomed:

- Currently, the respective rights of the security provider and security taker in taking steps to maintain the value of the secured IPR during the life time of the security (e.g. by bringing enforcement actions against third parties) are unclear – particularly where the parties are in the position of mortgagor and mortgagee.
- In addition, difficulties are inherent in the special priority rule and dual systems for registration of security interest in the UK. The first key issue concerns difficulties in the application of the special priority rule, i.e. the system under which registered interests are favoured over earlier unregistered interests, provided that the holder of the later registered interest did not have knowledge of the earlier interest. This system can lead to: (i) complex factual disputes about whether the holder of the later interest had notice of the earlier interest; and (ii) circular priority (which is a risk inherent in any system that orders competing claims on the basis of knowledge of the earlier claims). Moreover, there is additional complexity in the interoperability of the specialist IP registers and the charges register maintained by Companies House. For example, if Party A registers a security interest at Companies House, but not on the relevant IPR register, and Party B subsequently acquires a new security interest in the same IPR and registers that on both the Companies House register and the relevant IPR register, there is “priority dilemma” – i.e. the Companies Act regime favours Party A, whereas the IP statutory regime favours Party B. The outcome of this scenario will also depend on whether the registration of the security interest at Companies House can be seen as providing notice to third parties for the purpose of priority within the specialist IPR registers – and this is currently unclear under UK law. Finally, as registration on the specialist IP registers is not mandatory, and the charges register maintained by Companies House only contains details of security interests granted by companies incorporated in the UK, it can be difficult for an interested party to assess whether the IPR assets of a potential security provider are already subject to security interests, thereby making IPRs less attractive as secured assets.

The biggest changes in commerce in recent years have been the rise in the importance of IPR as assets of value and the growth in international trade. It would therefore be beneficial to have a simpler and more internationally harmonised system in order to promote transactions that use IPR as collateral.

In our view, there are significant advantages to a system, such as the PPSA (Personal Property Security Act) system utilised in Canada, where all types of security interest are treated in the same way and are subject to the same the same rules of registration, priority and, in most cases, enforcement – which would minimise the complexity surrounding the different types of security interests and the associated consequences for the rights and obligations security taker and security provider, as well as eliminating the undue complexity that currently exists in the UK in relation to registration and priority.

### 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:

IPRs require specific and detailed provisions in any legal framework as there are fundamental differences between tangible and intangible assets, and also different types of intangible assets (e.g. IPRs and debts and other receivables), which mean that provisions aimed at regulating security interests over one category are unlikely to be suited to the regulation of them all. For example, specific and detailed provisions defining the impact that a security interest encumbering IPRs will have on their exploitation and enforcement would be very helpful for clarity (noting that sufficient flexibility should be maintained in all cases to promote the use of IPRs as collateral).

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?

As a minimum, registered IPRs should be capable of being the subject of a registrable security interest allowing the owner to raise money against them.

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:

This would introduce additional complexity into a system which would already benefit from being simplified, and it is difficult to identify any significant benefits of treating different registered IPRs in fundamentally different ways for the purpose of 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?

no

Please explain:

Subject to basic principles of effective security, this should be a matter for agreement between the parties. The more flexible the system, the more likely it is to be used.

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

yes

Please explain:

Subject to basic principles of effective security, this should be a matter for agreement between the parties. The more flexible the system, the more likely it is to be used.

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

This should be a matter for agreement between the parties.

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

no

Please explain:

This should not necessarily be the case - this should, in each case, be a matter for agreement 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)?

This should be a matter for agreement between the parties.

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

yes

Please explain:

#### 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 creation of the IPR, because this promotes certainty.

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, see above.

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.

N/A

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

N/A

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

Summary