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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, French law does provide for the possibility of creating security interests over intellectual property rights.

- Firstly, Art. 2355 of the French Civil Code provides the possibility of creating security interests over intangible property (pledging). Even though they are not expressly referred to, IPRs are clearly covered by this provision.

- Secondly, a number of provisions of the French Intellectual Property Code – hereafter “IPC” – (and of EU law: legislation on trademarks and Community designs) expressly mention the possibility of creating security interests over IPRs.

If yes, please answer Questions 2) to 14) inclusive before proceeding to question 15) and following.  
If no, please proceed directly to question 15).

- 2) Are the available types of security interests defined by specific provisions relating to security interests over IPRs or by general commercial law principles (e.g. specific provisions in your Group's patent legislation rather than general commercial provisions that are applicable to tangible personal property as well as to patents)?

yes

Please explain:

Two bodies of law exist which are applicable to security interests over IPRs.

1) The core of the law of security interests which is applicable to IPRs is contained in principles of general law.

The regime for security interests over IPRs is established in general terms by the Civil Code, though IPRs are never expressly mentioned.

The provisions of the Civil Code set out the regimes for the various security interests which may relate to intangible property, with it being an established principle that this category includes IPRs. It is expressly provided that trademark rights and Community design rights may be the subject of a possessory or non-possessory pledge, but no specific regime is established.

2) In addition, certain specific provisions of domestic and EU industrial property law take into consideration the particular issues concerning IPRs which are the subject of a filing and of the grant of a property right by the administrative authorities (patents, trademarks and designs).

One provision in particular governs the coexistence between European patents and French patents which are the subject of a security interest: Article L. 614-14 paragraph 1 of the IPC provides that *"where a French patent application or a French patent and a European patent application or a European patent have the same filing or priority date, cover the same invention and belong to the same inventor or to his successor in title, those parts which are common may not be transferred, or be the subject of a possessory or non-possessory pledge (possession is ceded in the first case, not in the second), or have their exploitation rights assigned independently of each other on pain of nullity"*.

- 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:

Introduction

IPRs are intangible property. Accordingly, three types of security interests can be applied to them pursuant to the Civil Code: the pledge (1), the retention of title clause (2) and the trust by way of security (3).

**1)** Pursuant to Article 2355 of the Civil Code, *"a non-possessory pledge is the allocation of an intangible movable asset or of a set of intangible movable assets, actual or future, as security for an obligation"*. In French law, IPRs are intangible property. Pledges are governed by Articles 2355 to 2366

of the Civil Code (as well as by Articles 2333 to 2354 relating to the pledging of tangible property, the regime for which applies by default to the pledging of intangible property).

Pledging of IPRs by way of agreement is therefore possible in principle.

A court-ordered pledge, which is a protective measure, is not possible in relation to an IPR on its own. On the other hand, the pledging of a business (*fonds de commerce*) which includes IPRs is possible (Article L.531-1 of the Civil Procedure Codes for Enforcement).

In theory, a pledge may be constituted with or without possession being ceded by the debtor for the benefit of the creditor. However, in practice, as far as the French Group are aware, pledges of IPRs where possession is ceded never occur. Therefore, only the scenario of pledging where possession is not ceded is studied here.

- In relation to patents, a pledge may be taken over a national (Article R.613-55 of the IPC) or European (Article L.614-14 of the IPC) patent application or patent, without the grant of the property right needing to be awaited, as is specified by Articles R.614-38, L.614-14 and L.614-29 of the IPC.

Nevertheless, in order to be capable of being relied upon against third parties, the pledge must be publicized in accordance with Articles R.613-55 (national patents) and L.614-11 (European patents) of the IPC.

- In relation to trademarks, a pledge may relate to a national (L.714-1 of the IPC) or EU (Article 19 of Regulation No 40/94 on the EU Trade Mark) trademark, from the stage of the application for registration onwards (Article R.712-21 of the IPC, which relates to national trademarks). Certification marks cannot be the subject of a pledge (Article L.715-2 of the IPC).

In order to be able to be relied upon against third parties, the pledge must be publicized in accordance with Articles R.714-4 IPC (national trademarks) and 19 of the aforementioned Regulation No 40/94 (EU trade marks).

- In relation to designs, a pledge may relate to a national (Article R.512-9 of the IPC) or EU (Article 29 of Community Regulation No 6/2002 on Community Designs) design, from the stage of the application for registration onwards (Article R 512-9-1 of the IPC as far as national designs are concerned).

In order to be able to be relied upon against third parties, the pledge must be publicized in accordance with Articles R.512-15 of the IPC (national designs) and 29 of Regulation No 6/2002 (Community designs).

- Furthermore, businesses (*fonds de commerce*) may also be the subject of pledges (Art. L.142-1 of the French Commercial Code). Businesses are a universal whole composed of all of the assets allocated to its exploitation, including IPRs. Article L.142-2 of the Commercial Code sets out an exhaustive list of the assets which may be pledged with the business as a going concern. This list expressly comprises: the brand and the trade name, the patents, the licences, the trademarks, the industrial designs, and generally the IPRs attaching thereto. Specific legal provisions apply to pledges of businesses as going concerns.

**2)** Pursuant to Article 2367 of the Civil Code, title over an IPR may also be retained by way of security by means of a retention of title clause. The parties agree that the transfer of the title over the IPR will only occur once the price has been paid in full, even though delivery has occurred. However, the debtor benefits from the use of the IPR that is the subject of the retention of title clause.

**3)** Since the reform of the law of security interests of 2006, ownership of an asset can finally be assigned by way of security by means of a trust-by-way-of-security interest ("*fiducie-sûreté*") agreement, as envisaged by Article 2372-1 of the Civil Code, according to which "*ownership of a movable asset or of a right may be assigned by way of security by virtue of a trust agreement entered*

into pursuant to Articles 2011 to 2030". The regime for this trust by way of security is set out in Articles 2011 to 2030 and 2372-1 to 2732-5 of the Civil Code.

A trust is a transaction by which a settlor transfers assets, rights or security interests, or a set of assets, of rights or of security interests, whether present or future, to one or more trustees who, keeping them separate from their own assets, act for a specific purpose in the interests of one or more beneficiaries (Article 2011 of the Civil Code).

The settlor (proprietor of the intangible asset) owes a debt to the beneficiary of the trust (who is a third party to the trust agreement). The settlor enters into a trust agreement with a trustee, in which the settlor provides for a transfer of ownership of the asset for a fixed period.

- If the settlor pays the debt which it owes to the beneficiary within the period fixed, the asset that is the subject of the security interests becomes once again part of the assets of the settlor.
- If the settlor does not pay the debt which it owes to the beneficiary of the trust within the period fixed, the trust by way of security will then be realized.

An availability agreement entered into between the settlor and the trustee may enable the settlor to benefit from a personal right over the asset that is the subject of the security interest (equivalent to a licence agreement).

In the event of default by the debtor in the context of a pledge or of a trust by way of security, the creditor may have full ownership of the IPR assigned to it under certain conditions.

1) In the context of a pledge, the creditor may have the ownership of the IPR assigned to it:

- either by way of a court-ordered assignment. In this case, the creditor asks the judge to order the asset to remain with it by way of payment (Article 2347 of the Civil Code);
- or by way of a forfeiting agreement (*pacte comissoire*). In this case, the parties make contractual provision that the creditor will become the proprietor of the pledged IPR in the event of default by the debtor (Article 2348 of the Civil Code).

If the value of the pledged IPR exceeds the amount of the secured debt, a sum equal to the difference is paid to the debtor or, if other secured creditors exist, is deposited on account.

2) In the context of a trust by way of security, the time of repayment of the debt, the trustee has only temporary ownership of the IPR and cannot exploit it for its own account. In the event of default on payment of the secured debt, the creditor may have full ownership of the IPR assigned to it under the following conditions:

- when the trustee is the creditor/beneficiary, it acquires the ability to dispose freely over the asset or the IPR assigned by way of security, unless provision to the contrary is made in the trust agreement (Article 2372-3 para.1 of the Civil Code).
- when the trustee is not the trustee/beneficiary, the creditor may require the trustee to hand over the asset so that the creditor has it at its disposal or, if the agreement so provides, it may sell the asset and have the price paid to it. If the value of the asset exceeds the amount of the debt secured, the beneficiary of the trust must pay the difference in price to the settlor (Article 2372-3 para. 2 of the Civil Code).

3) In the context of a retention of title clause, the creditor retains ownership of the secured asset without transferring it to the debtor. The debtor therefore benefits only from a right of enjoyment. Also, in the event of default by the debtor, the creditor may ask for the restitution of the secured asset – of which he has always been the owner – in order to obtain the right to dispose over it pursuant to Article 2371 of the Civil Code. If the value of the returned asset exceeds the amount of the debt, the creditor

will pay to the debtor the difference between the value of the asset handed over and the amount of the secured debt.

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:

In France, security interests take effect only in the event of default by the debtor.

**1)** In the context of a pledge, in the event of default by the debtor, the creditor may have assigned to it ownership of the pledged IPR under the conditions set out above in point a) (Articles 2347 and 2348 of the Civil Code) or can have a court order for the sale of the pledged asset issued in accordance with the civil procedure rules on enforcement, with the agreement not being able to derogate from these (Article 2346 of the Civil Code).

**2)** In the context of a retention of title clause, the creditor is the proprietor of the IPR until the price has been paid in its entirety. In the event of default by the debtor, the creditor simply requests the restitution of the asset: it therefore does not undertake the liquidation of the IPR (Article 2371 of the Civil Code).

**3)** In the context of a trust by way of security, the creditor, if it is not the trustee, may require the latter to hand over the asset, which the creditor may then dispose freely over, or, if the trust agreement so provides, to sell the asset or IPR assigned and to hand over all or part of the price (Article 2372-3 para. 2). Where the trustee is the creditor, it acquires the ability to dispose freely over the IPR assigned by way of security (Article 2372-3 para. 1 of the Civil Code).

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:

**1)** As has been indicated, a pledge over IPRs is always entered into without ceding possession of them.

The security provider/debtor retains all of its rights over the pledged IPR and can therefore freely exploit it subject to its obligation to preserve the pledged IPR (Art. 2344 of the Civil Code) the limitations expressly provided in the IPR.

The creditor cannot exploit the IPR.

In the event of default by the debtor, the creditor can have assigned to it ownership of the pledged IPR, either by way of a court-ordered assignment (Article 2347 of the Civil Code) or by way of a forfeiting agreement (*pacte comissoire*) (Article 2348 of the Civil Code) – see above, point a).

**2)** The effect of the retention of title clause is that the creditor remains the proprietor of the IPR until the debtor has paid the entirety of the price; the creditor is therefore responsible for the renewal of the IPR in its capacity as proprietor of the right. However, it cannot exploit the IPR: only the debtor benefits from the enjoyment and use of the right.

In the event of default by the debtor, the creditor may obtain the restitution of the asset and has full enjoyment of it.

**3)** When a trust by way of security is implemented, the IPR that is the subject of the trust is transferred to the trustee, who does not have the right to exploit it, but merely to preserve it, unless there are contractual provisions to the contrary. Likewise, the security provider does not have the right to exploit the IPR that is the subject of the trust, unless an agreement to make available is entered into between the security provider and the trustee.

In the event of default by the security provider, unless provision is made to the contrary in the trust agreement, the trustee, when it is the creditor, acquires the right of free disposal over the IPR assigned by way of security (Article 2372-3 para. 1. of the Civil Code). When the trustee is not the creditor, the latter can require the trustee to hand over to it the asset, which the creditor may then dispose freely over, or, if the trust agreement so provides, to sell the asset or IPR assigned and to hand over all or part of the price (Article 2372-3 para. 2).

- The above answers to points a) to c) apply when the defaulting debtor is not the subject of insolvency proceedings. The commencement of insolvency proceedings against a defaulting debtor can result in the following consequences:
- possibility of action for restitution by application of the retention of title clause (Article L.624-16 para. 2. of the Commercial Code).
- neutralization of the entry into and performance of the forfeiting agreements on the basis of the judgment commencing the proceedings (Articles L.622-7, I, para. 3. and L.641-3 of the Commercial Code).
- neutralization of the trust by way of security: no assignment or transfer may be made for the benefit of the trustee or of a third party simply because of the commencement of the proceedings, the approval of the plan or else a default on payment of a debt which came into being prior to the commencement judgment (Article L.622-23-1 of the Commercial Code).

It should be noted that the supervisory judge can also authorize the debtor, the liquidator or the administrator to pay debts from prior to the judgment, to withdraw a pledge or a thing held lawfully or else to obtain the return of assets and rights transferred by way of security into a fiduciary estate, when this withdrawal or this return is justified by the continuation of the activity (Articles L.622-7, II, para. 2 and L.641-3 of the Commercial Code).

In the absence of a withdrawal of the pledge or of the thing held lawfully under the conditions laid down by the second paragraph of Article L.641-3 of the Commercial Code in the event of a judicial liquidation being commenced, the liquidator must, within six months of the judicial liquidation judgment, ask the supervisory judge for authorization to undertake the realization. The liquidator notifies his authorization to the creditor fifteen days prior to the realization. The secured creditor, even if it has not yet been accepted, can ask the supervisory judge for a court-ordered assignment prior to the realisation. If the debt is rejected in its entirety or in part, the secured creditor returns to the liquidator the asset or its value subject to the amount of his debt that has been accepted. In the event of a sale by the liquidator, the right of retention is added to the price by operation of law. Any registration made for the purposes of preserving the pledge is deleted at the behest of the liquidator.

It should be specified that, to all intents and purposes, the French regulations in relation to collective insolvency procedures are mandatory provisions.

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.

**1)** The pledge is the type of security interest that is most commonly (indeed almost exclusively) used in French law in relation to IPRs, whether this be a pledge relating to an IPR per se or one relating to a business which includes IPRs.

This applies for all IPRs, and there are therefore no types of security interest that are exclusively used for certain IPRs.

The pledge has the particular advantage of always being constituted without possession being ceded, and thus of allowing the debtor to continue to exploit its IPR.

**2)** The retention of title clause is little used in practice because it is applicable in practical terms only when assigning an IPR in order to secure the payment of the price of the said IPR.

**3)** The trust by way of assignment is little used for IPRs. Apart from the fact that it was introduced relatively recently in French law (in 2006), its use necessarily involves a transfer of the IPR in favour of the trustee, thereby making it more complicated for the debtor to pursue the exploitation of the IPR.

The trustee (generally a credit institution or an insurance company) in principle does not have the right to exploit personally the IPR to which the trust by way of assignment relates and, apart from in exceptional cases, is in any event not in a position to do so (see question 3) c)). This may be problematic both from an economic point of view (in particular risk of depreciation of the value of the IPR) and from a legal point of view (for example risk of forfeiting on grounds of non-use with regard to trademarks).

#### Effects of security interests

5) Is the security provider restricted in their right to use their IPR after providing a security interest over that IPR? For example, in respect of their right to grant licenses, or the right to use the protected subject matter. Please answer for each available type of security interest.

yes

Please explain:

#### **1) The pledge**

Patents, trademarks and designs constitute intangible property and, accordingly, can be the subject of a pledge pursuant to the provisions of Article 2355 paragraph 5 of the Civil Code, which, as far as the pledging of intangible property other than debts is concerned, refers to the regime for the pledging of tangible property.

In practice, the pledging of an IPR always occurs without possession being ceded.

Accordingly, the settlor is able to continue to exploit its IPR and to profit from it.

However, it does not enjoy complete liberty: it can no longer exercise its rights in its own interest alone, since it must also take into account the interest of its creditor (JurisClasseur Brevets, "Fascicule 4770: nantissement et saisie de brevet [Bundle 4770: pledging and distraintment of patents]", paragraph no. 55).

In particular, the settlor must comply with the obligation of preservation of the pledge, which is set out

in Article 2344 paragraph 2 of the Civil Code (the IPC does not mention this obligation).

It follows from this obligation that the creditor is entitled to expect that the behaviour of the settlor will not give rise to the depreciation of the IPR, whether this be:

- } from its own actions pursuant to Article 1188 of the Civil Code;
- } or, in the absence of any action on its part, pursuant to Article 2344 of the Civil Code, to which Article 2355 of the Civil Code refers.

This obligation has various repercussions on the exploitation of the pledged intellectual property rights.

- First of all, the obligation requires the security provider to pay fees due to the French National Industrial Property Institute (INPI) or any other competent office for the maintenance in force of the designs, trademarks and patents (JurisClasseur Brevets, “Fascicule 4770: nantissement et saisie de brevet”, paragraph no. 59).
- Then, the security provider can be compelled to maintain the exploitation of its property right in order to comply with this obligation of preservation of the pledge of the asset (or to have it complied with by its licensee, where applicable).

In particular, the security provider or the licensee should, with regard to trademarks, undertake genuine use of the property right in order to prevent it from being forfeited.

- Thus, no provision appears to prevent the security provider from granting a licence over the encumbered IPR as long as the security provider ensures that this granting of a licence does not harm the preservation of the scope of the security interest.

The Intellectual Property Code additionally lays down other limitations to the exercise of the rights of the proprietor of the encumbered intellectual property rights.

The applicant may abandon the application for the grant or registration of an IPR only with the consent of the secured creditor (see Articles R. 512-9-1 in relation to designs, R. 612-38 in relation to patents and R. 712-21 in relation to trademarks, of the Intellectual Property Code).

With regard to patents, the consent of the secured creditor is necessary only in certain scenarios:

- } before the grant of the patent, the creditor’s consent is not required for:
  - ? the conversion of the patent application into a utility certificate, in the absence of any provision to the contrary;
  - ? the amending of the claims of a patent application (Article R. 612-68 of the Intellectual Property Code);
- } after the grant of the patent, the consent of the secured creditor must be obtained for:
  - ? abandoning the entirety of the patent or certain of its claims;
  - ? limiting the scope of the patent;

pursuant to Article R. 613-45 of the Intellectual Property Code.

- This regime also applies to intellectual property rights when they are the subject of a pledge within a business as a going concern.

Pursuant to Article L. 142-2 of the Commercial Code, patents, trademarks and industrial designs must be designated expressly in the deed of pledge. This security interest is also effected without possession



being ceded.

The principle of obligation to preserve the asset, which is set out above, also applies to the provider of a pledge in relation to a business as a going concern, in particular as far as the granting of licences and exploitation is concerned.

## **2) The retention of title clause and the trust by way of assignment**

In the context of the retention of title clause and the trust by way of assignment, the security provider in principle cannot exploit the IPR since it is no longer the proprietor of it.

However, in practice, the proprietor of the IPR may be authorized to continue the exploitation of the IPR by means of a licence.

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

yes

Please explain:

The law does not prohibit the security provider from assigning the pledged asset.

In the absence of any relevant provisions, the security provider may therefore assign its asset freely.

A judgment of the commercial chamber of the Court of Cassation of 26 November 2013 (appeal no. 12-27390) held that the right of retention applies only to tangible property and that in that case the non-possessory pledging of a business did not confer a right of retention on the creditor, with the consequence that it may be inferred that the security provider may assign its business as a going concern.

This solution appears to be able to apply to all intangible assets which are the subject of a non-possessory pledge.

The provider of a non-possessory pledge over an IPR would therefore be able to assign its IPR freely.

The same solution undoubtedly applies to the assignment of a share of an IPR held in joint ownership, whether the security interest relates to the IPR in its entirety or just to a share. In this regard, it should be noted that the joint owner of a patent may abandon its share for the benefit of the other joint owners (L 613-31 IPC). This transaction could be interpreted as an assignment for no consideration, which is therefore possible without the consent of the beneficiary; it could also be interpreted as an abandonment which requires consent (see question 8). Uncertainty therefore exists.

### **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)?**

**a)** In theory, the assignment of the IPR by the security provider is not subject to any conditions.

However, in practice, the creditor may make it a contractual requirement that the assignment be subject to its consent. Generally, the parties may decide contractually the conditions for the assignment of the IPR by the security provider.

This assignment must be registered at the INPI to be able to be relied upon against third parties (Art. 2337 of the Civil Code), as laid down by Articles L. 613-9 and L. 714-7 and R. 512-17 of the Intellectual

Property Code.

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

yes

Please explain:

**b)** In the scenario where the creditor has not obtained satisfaction of its debt, the security interest follows the IPR in the event of assignment. The right to follow (*droit de suite*) can be exercised only on condition that the pledge has been entered in the register of the competent office.

In addition, Article L. 143-12, first paragraph of the Commercial Code provides that “*the preferential rights of the vendor and the secured creditor shall follow the business into whichever hands it may pass.*”

The right to follow from which the secured creditor benefits thus enables it to distrain the encumbered asset following an assignment.

If the registration of the pledge precedes that of the assignment, the creditor may undertake the auctioning off of the business, even when it is in the hands of the assignee.

However, the elements of the business may be assigned without the secured creditor being able to assert a right to follow; rather, it merely has a preferential right over the sale price.

However, in a case relating to a lease included in a business that was subject to a pledge, it was held that the creditors’ rights had been infringed as the element which had been assigned was the only asset that existed within the business (Cass. Com., 20 October 1998, appeal no. 96-15.107).

According to the scholarship, the same principle should apply to any industrial property right element on account of the particular formalities for registration at the INPI that are laid down in Article L. 143-17 of the Commercial Code (JurisClasseur Entreprise individuelle, “Fascicule 3800: Nantissement du fonds de commerce – Assiette, effets [Bundle 3800: Pledging of a business – Scope, effects]”, paragraph no. 93).

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

**1)** In the context of a pledge, if the security provider remains in principle free to exploit the pledged IPR, the interest of the secured creditor who does not have control of the pledged IPR must nevertheless be taken into account.

In order to preserve the rights of the secured creditor, the IPC thus requires the security provider to obtain the consent of the secured creditor when undertaking certain actions that are capable of leading to a reduction in, or even the destruction of, the value of the IPR.

On the other hand, as the secured creditor is not the proprietor of the pledged IPR, it cannot bring infringement actions or seek interim measures. Nor does it have any right to the fruits of the exploitation of the pledged IPR.

### **The right of veto**

- The IPC lays down special provisions for each IPR, which require the security provider to obtain the consent of the secured creditor when undertaking certain actions that are capable of causing

prejudice to the pledged IPR.

The creditor's consent is thus required in the event of:

- withdrawal of a patent application (Article R. 612-38, para. 4 of the IPC);
  - abandonment of the entirety of a granted patent or of certain of its claims or limitation of the scope of a granted patent by the amendment of one or more of its claims (Article R. 613-45 paras. 1 and 4 of the IPC);
  - total or partial withdrawal of an application for registration of a trademark (Article R. 712-21, para. 3 of the IPC);
  - total or partial abandonment of a registered trademark (Article R.714-1 of the IPC);
  - total or partial abandonment of an application for registration of a design (Article R. 512-9-1, para. 4 of the IPC); and
  - total or partial abandonment of a registered design (Article R. 513-2 of the IPC).
- On the other hand, there are no provisions requiring the consent of the secured creditor for other acts which may result in a modification of the scope and/or value of the security interest.

This is the case in respect of the amendment of the claims of the patent application, which may be undertaken without the consent of the secured creditor in accordance with the express provisions of Article R. 612-68 of the IPC.

Likewise, the consent of the secured creditor does not appear to be required in the event of an assignment to a third party of the pledged IPR.

The secured creditor will, where appropriate, have an interest in stipulating in the pledge agreement that the aforementioned acts are subject to its prior consent.

### **The absence of a right to bring infringement actions and to seek interim measures**

Infringement actions can only be brought by the proprietor of the IPR, or by the exclusive licensee if, after a warning notice has been sent, the proprietor of the IPR does not undertake this action (in relation to patents: Article L. 615-2 paragraphs 1 and 2 of the IPC, in relation to trademarks: Article L. 716-5 paragraph 1 of the IPC, in relation to designs: Article L. 521-2 paragraphs 1 and 2 of the IPC).

The same is true for interim prohibitory measures and applications for an advance on costs which may be obtained in interlocutory proceedings (in relation to patents: Article L. 615-3 of the IPC, in relation to trademarks: Article L. 716-6 of the IPC, in relation to designs: Article L. 521-6 of the IPC).

Consequently, the secured creditor does not have standing to bring an infringement action or to apply for the granting of interim measures.

### **The absence of a right to enjoy the fruits of exploitation of the pledged IPR**

IPRs are capable of producing fruits, in particular in the form of exploitation royalties and/or the payment of lump sums, as a consequence of licences being granted or exploitation rights being awarded. The question arises of whether the secured creditor is entitled to benefit from these fruits.

While it is expressly stipulated that the entitlement to receive any potential fruits exists in the case of possessory pledges by Article 2345 of the Civil Code, which provides that "*Unless otherwise agreed, when the person in possession of the pledged asset is the creditor of the debt secured, he is entitled to the fruits of that asset and sets them against the interest or, if there is no interest, the principal amount of the debt*", this is not the case with regard to the pledging of IPRs, where the security provider is not deprived of possession.

Thus, in principle only the security provider has the right to benefit from the fruits of exploitation unless the parties provide otherwise in the deed of pledge.

**2) In the context of a trust by way of security**, this is characterized by a transfer of ownership of the IPRs from the settlor/security provider to the trustee (who may be either a third party or the creditor who is the beneficiary of the trust). Subject to the provisions of the agreement, the trustee enjoys all of the attributes of the proprietor. However, owing to the purpose of the trust by way of security, the trustee is bound by a duty of diligence and good faith, which thus limits it in the exercise of its rights. Thus, in most cases the trustee will only be entrusted with a task of preserving (i.e. maintaining in force and defending) the asset transferred by way of security.

The extent of the rights of the creditor who is the beneficiary of the trust varies depending on whether or not it has the capacity of trustee:

If the beneficiary/creditor is not the trustee, it finds itself, subject to any contractual provisions to the contrary, in a situation that is relatively comparable to that of the creditor secured by way of a pledge, since it is not the proprietor of the IPR. Consequently, like the creditor secured by way of a pledge, the beneficiary/creditor cannot bring infringement actions (or seek provisional measures) and in principle has no right to the fruits of exploitation of the IPR transferred by way of security. However, unlike the creditor secured by way of a pledge, the beneficiary/creditor does not appear to be able to benefit from the provisions relating to the “right of veto” set out above which apply only to the holders of “rights *in rem*” and of “rights of lien”.

If the beneficiary/creditor is also the trustee, it then in principle benefits from the same rights/prerogatives as the holder of the IPR, subject to the provisions of the trust agreement and compliance with its duty of diligence and good faith.

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

**1) In the context of a pledge**, and pursuant to Article 2344, paragraph 2 of the Civil Code, the general obligation to preserve the pledge and, consequently, the pledged IPR, falls upon the security provider.

However, the details of this preservation obligation are not defined either in the Civil Code or in the IPC.

#### **A. The maintenance in force of the pledged IPR**

The general obligation to preserve the pledge requires the security provider to do what is necessary to maintain in force the pledged IPR.

##### Payment of fees

It is for the security provider to make payment to the INPI (and, where appropriate, to the other competent offices) of all of the fees necessary for the maintenance in force of the pledged IPR (e.g.: annuities for patents, renewal fees for trademarks).

In the event of the security provider neglecting to do so, the secured creditor may nevertheless undertake the payment of the fees itself. The security provider must then reimburse the creditor for the fees which the latter has paid where these are incontestably an “*expense useful or necessary (...) for the preservation of the pledge*” within the meaning of Article 2343 of the Civil Code.

##### Exploitation of the pledged IPR

When the pledged IPR is a trademark, the general obligation to preserve the pledge requires the security provider to make genuine use of the pledged trademark, directly or by the intermediary of a licensee, in order to protect itself against the risk of forfeiting its right on account of its not putting its rights to genuine use over an uninterrupted period of five years from its registration date (Article L. 714-5 of the IPC).

While there is no such thing as forfeiture for lack of use in relation to patents, it must nevertheless be noted that, in theory, a lack of use within a period three years after grant or of four years from the date of filing of the application, under certain conditions, enables any interested third party to obtain a compulsory licence over the patent (Articles L. 613-11 and L. 613-12 of the IPC). This compulsory licence over a pledged patent could be of such a nature as to reduce its value.

### **B. The defence of the pledged IPR**

The general obligation to preserve the pledge requires the security provider to do what is necessary to preserve its monopoly of exploitation against the acts and claims of third parties that are of such a nature as to cause prejudice to the pledged IPR.

It is therefore for the security provider to defend the pledged IPR whenever its validity is challenged by third parties, whether in administrative proceedings or court proceedings.

The general obligation of preservation could even mean that the security provider has to bring an infringement action in particular situations in which inactivity by the security provider in the face of acts of infringement could decrease the value of the pledged IPR.

When the pledged IPR is a trademark, the preservation obligation requires the security provider to do what is necessary to avoid the genericization set out in Article L. 714-6 of the IPC.

**2) In the context of a trust by way of security**, unless the agreement stipulates otherwise, all of the aforementioned obligations are borne by the trustee as the proprietor of the IPR transferred by way of security, regardless of whether the trustee is the creditor or a third party.

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.

**1) In the context of a pledge**, a distinction should be made depending on whether or not the expiry or revocation of the pledged IPR is due to a breach by the security provider of its preservation obligation.

This is because Article 2344, paragraph 2 of the Civil Code provides that *“When the pledge is made without dispossession, the creditor may avail himself of the forfeiture of the term of the secured debt or request an additional pledge if the pledgor does not carry out his obligation of preservation of the pledge.”*

Now, as has been stated above (cf. answer to question 9 above), the pledged IPR may disappear, for example as a consequence of the security provider omitting to pay the fees or of not putting up a defence when faced with a revocation action from a third party that is directed at the IPR.

In such scenarios, the disappearance of the pledged IPR results from the security provider breaching its preservation obligation, with the consequence that the creditor is entitled to seek:

- *“forfeiture of the term of the secured debt”*, which requires the debtor to pay the secured creditor all of the sums due, without waiting for the scheduled repayment date,
- *“an additional pledge”*, which could take the form of a pledge over another IPR of the portfolio or any other of the debtor’s assets.

On the other hand, when the IPR expires at the end of its legal term of protection or is revoked by the courts despite the security provider's efforts to defend it, no breach of the preservation obligation can then be imputed to the security provider. The secured creditor thus loses its security without being able to seek the forfeiture of the term of the secured debt or an additional pledge.

**2) In the context of a trust by way of security,** it is necessary once again to make a distinction depending on whether or not the expiry or revocation of the IPR can be attributed to a breach by the trustee of its preservation obligation.

This is because Article 2026 of the Civil Code provides that *"The trustee is liable, on his own assets, for the errors he commits in the fulfilment of his task"*.

As is the case with pledges, when the IPR expires at the end of its legal term of protection or is revoked by the courts despite the trustee's efforts to defend it, no breach can be imputed to the trustee.

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:

As the legal regimes applied to the pledging of intellectual property rights on their own or to the pledging of a business are not precisely outlined by the legislation and the case-law, it is possible, indeed advisable, to organize the rights and obligations of the security provider and of the creditor in relation to the pledged asset in the deed establishing the pledge.

With the exception of the formalities for registration at the INPI which cannot be derogated from if the IPR is to be able to be relied upon against third parties, there is a large degree of contractual freedom in this area.

Accordingly, it may be useful to specify in the pledge agreement the conditions for the preservation of the pledged asset; in particular the following should be stipulated:

- } the arrangements for the exploitation of the IPR that are required by the creditor;
- } the arrangements for the creditor giving its consent to any grant of a licence over the IPR;
- } the arrangements for the creditor giving its consent to any assignment of the IPR.

In addition, the secured creditor may make contractual provision for its preferential right being applied to an insurance payment in the event of the rights losing value.

#### 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:

No; French law (including the provisions of the Rome Convention and the Rome I Regulation) does not contain any conflict of laws rule that is specifically applicable to security interests.

*A fortiori*, it does not contain any provision relating to security interests that encumber IPRs.

It is therefore the generally applicable conflict of laws rules that have to be referred to.

Question no. 12 seeks an answer in the specific case where the security interest relates to a **portfolio** of rights containing both national and foreign property rights.

As will be seen in the answer given to Question no. 13, a number of laws may be designated by the generally applicable conflict of laws rules.

For the purposes of a clearer understanding, we invite the reader to refer firstly to the answer given to Question no. 13 before continuing onto this answer.

Regarding **the creation of the security interest**, one single law will be applicable to the security agreement relating to the portfolio of property rights: the law of the contract (determined by the parties or by the applicable provisions). This is because whatever the number of IPRs that are encumbered is, the hypothesis is that **one and the same contract** covers all of the property rights.

With regard to the **form of the instrument**, one single law, the law governing formal validity, will be applicable for the same reasons

However, with regard to the **effects of the security interest**, since it is the law of the location of the asset that applies, it must be borne in mind that a number of laws will be likely to govern the effects of the security interest relating to the portfolio.

They will apply on a distributive basis, depending on the property right involved.

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.

With regard to security interests, the principle is a system of sharing of authority between the law of the source of the security interest, the law of the location of the asset and the law governing formal validity of the contract. In the case of security interests **by agreement**, the law of the source is understood to be the law of the contract.

**A. The laws designated by the conflict of laws rules**

**B. The respective areas of application of the laws designated by the conflict of laws rules**

#### **A. The laws designated by the conflict of laws rules**

The following may be designated:

- the law of the location of the asset (**i**),
- the law of the contract (**ii**),
- the law governing formal validity (**iii**).

#### **i. The law of the location of the asset encumbered by the security interest (*lex rei sitae*)**

- In French law, the *lex rei sitae* is the law traditionally applicable to assets and rights *in rem* relating to tangible property.

Article 3 of the Civil Code provides that "*French law governs immovable property, even those*

*possessed by aliens."*

The legislation does not contain any similar provision for **movable property**.

However, the case-law has extended the rule set out in Article 3 of the Civil Code to movable property.

The Court of Cassation accepted, by analogy with immovable rights *in rem*, that the law applicable to movable property is, as is the case for immovable property, that of their location (Cass., Req., 24 May 1933, *Société Kantoor de Mas*).

Then, the Court of Cassation ruled that French law alone is applicable to rights *in rem* the object of which is movable assets situated in France (Cass. 1<sup>st</sup> Civ. 8 July 1969, *DIAC*).

This solution has been reaffirmed in the case-law on a number of occasions (Cass. 1<sup>st</sup> Civ. 9 May 1973, Cass. 1<sup>st</sup> Civ. 9 December 1974, Cass. 1<sup>st</sup> Civ. 3 February 2010, no. 08-19.293).

The rule is bilateral, and therefore movable property located in a foreign country is subject to their local law.

Consequently, according to the French conflict of laws rules, all tangible assets are subject to the law of their location.

- The particular feature of IPRs is their intangible/immaterial character.

We have not been able to identify any relevant case-law during our research (which illustrate hypotheses involving security interests which relate to registered IPRs).

If one reasons by analogy with the solutions adopted in respect of security interests over tangible assets, it is necessary to seek to determine the **necessarily fictitious location** of the IPR.

For security interests over intangible property, the scholarship generally makes reference to the country of **filing** of the patent or of a trademark (for example, see M.E. Ancel, *Règles spéciales de localisation des incorporels* [Special rules for the location of intangible property], *Lamy droit des sûretés* Partie 2 [Lamy Law of Securities Part 2], § 290-75; For a reference to the location of the **first entry** on a register for an invention, see B. Audit, *Droit international* [International law], 5<sup>th</sup> edition, 2008, p. 635, §777. See also: D. Bureau, H. Muir-Watt, *Droit international privé* [Private international law]: PUF, 2007, t. II, no. 780).

In relation to civil enforcement procedures, it is accepted that law of the location of the asset is determined depending on the place of grant of the patent (*Jurisclasseur Brevets*, Fasc. 4770: *Nantissement et saisie de brevets*, §113).

In a dispute relating to trademarks sequestered and confiscated for the benefit of the French State, the Court of Cassation ruled that "*the right to the trademark is located in the country whose legislation gave birth to it and guarantees its protection*" (Cass. Com., 15 March 1966: *Rev. Crit. DIP* 1967, p. 147; *JDI* 1966, p.622, Le Tarnec note).

#### i. **The law of the contract (*lex contractus*)**

The law of the contract is also intended to apply to security interest agreements relating to intellectual property rights. In order to determine the law that is applicable to a contract that comprises a conflict of laws (hypothesis of the Question), the French court duly seised will apply the Rome Convention or Regulation (EC) no. 593/2008, known as Rome I, on the law applicable to contractual obligations.

This is because the Rome Convention and the Rome I Regulation apply "*to contractual obligations in any situation involving a choice between the laws of different countries*" (Article 1 of the Convention) when they relate to "*civil and commercial matters*" (Article 1 of the Regulation), with this covering



security interests applicable to intellectual property rights.

As a contract, a security interest relating to an IPR can elect the law which is applicable to it **(a)**.

In the absence of an express choice, the Rome Convention and the Rome I Regulation (depending on the date on which the contract was signed) provide the tools for determining the law of the contract **(b)**.

**a. The principle: the law chosen by the parties.**

The Rome Convention (Article 3(1)) and the Rome I Regulation (Article 3(1)) provide, in principle, that:

*“A contract shall be governed by the law chosen by the parties. The choice shall be made expressly or clearly demonstrated by the terms of the contract or the circumstances of the case [...]”.*

The choice may arise implicitly on the basis of the parties spontaneously referring to the same law when the dispute arises.

**a. In the absence of a choice of the applicable law by the parties**

- For **contracts entered into between 1 April 1991 and 17 December 2009**, Article 4(1) of the Rome Convention provides that:

*“The contract shall be governed by the law of the country with which **it is most closely connected**. Nevertheless, a severable part of the contract which has a closer connection with another country may by way of exception be governed by the law of that other country”.*

The principle of proximity relies on presumptions, the most common of which is to provide that the country which is most closely connected with the contract is the one in which the party which provides the **characteristic performance** is established.

In the context of a security interest agreement, the party which provides the characteristic performance is the provider of the security.

Therefore, the applicable law of the contract is, in the absence of any express or implied choice by the parties, the law of the place in which the provider of the security is established.

- **For contracts entered into from 17 December 2009**, the Rome I Regulation adopts a system of predefined connecting factors for specific categories of contracts, which do not explicitly refer to security interest agreements.

Article 4(1) of the Rome I Regulation provides that the applicable law depends on the nature of the contract.

However, one author likens security interests – granted over things – to **contract for the provision of services**, which are referred to in paragraph (b) of Article 4(1) (N. Martial-Braz, L’appréhension de l’incorporel en droit des sûretés: aspects internationaux [Dealing with intangible property in the law of securities: international aspects], *Revue Lamy Droit Civil* [Lamy Review of Civil Law], 2009).

On the basis of that hypothesis, the applicable law would therefore be the *“law of the country where the service provider has his habitual residence”*.

This same author considers that the service provider would necessarily be the provider of the security.

If it were not possible to liken a security interest agreement to any of the contracts set out in Article 4(1), the applicable law would be the law of the country with which **the contract is most closely connected** (Article 4(4) of Regulation (EC) No. 593/2008 of 17 June 2008).

**i. The law governing formal validity (*lex loci actus*)**

In accordance with the maxim *locus regit actum*, in France the law of the place where the contract was entered into governs the form of the instrument.

The principal reason behind this solution is simplicity; specifically, the parties will wish, for reasons of convenience, to refer to the law of the place where the contract was entered into for the purposes of comply with the formal requirements thereof.

Nevertheless, in France this rule is optional in nature.

According to the Court of Cassation, the rule “does not prevent international contracts from being concluded in France in a form provided for by the foreign law which governs their substance” (Civ., 28 May 1963, Chaplin, D. 63.677, JCP 63.II.13347 n. Malaurie).

It is therefore not imperative that the form be subject to the law of the place where the instrument is entered into.

Thus, a legal instrument which is entered into in a given place and which meets the conditions for formal validity of the law which governs its substance must not be deprived of effect on the grounds that a formal requirement of the local law has not been complied with.

From another angle, if the creation of the security interest requires a contract of a formal nature (such as a trust-by-way-of-security interest agreement), it is generally considered that it is not possible to sign an agreement abroad in order to escape the obligations in terms of form which apply. In this type of scenario, the form is necessarily subject to the law which governs the substance of the instrument (J-L Vallens, *Crise du crédit et des entreprises: les réponses du droit* [Credit crunch and companies: legal responses], p. 117, n°145).

**B. Respective areas of application of the laws designated by the conflict of laws rules**

The law of the location, the law of the contract and the law governing formal validity are therefore likely to apply to security interests relating to IPRs. These different laws have distinct respective fields of application.

As stated above, the law governing formal validity is optional in nature. On the other hand, its field of application is clearly determined and is limited to the formal conditions for the instrument when it is an instrument of a formal nature.

It is therefore principally the **law of the location** and the **law of the contract** which are likely to “telescope” in terms of their application.

A distinction must be made here between the **creation** of the security interest and its **effects**.

According to the Court of Cassation, “while the law of the location of the immovable property governs the **prerogatives** of the holder of the right in rem, **the acquisition** [of the right in rem] which results from a legal act is, in principle, subject to the law chosen by the parties” (Civ 1<sup>st</sup>, 21 July 1987, no. 85-16098).

- The field of application of the law of freedom of contract is limited. This only governs “the conditions for validity and the personal effects of the instrument” (B. Audit, *Droit international*, 5<sup>th</sup> edition, 2008, p. 635, §777. See also: D. Bureau, H. Muir-Watt, *Droit international privé*: PUF, 2007, t. II, no. 667).

Moreover, Article 12 of the Rome I Regulation, which relates to the scope of the law of the contract, provides that:

*“The law applicable to a contract by virtue of this Regulation shall govern in particular:*

- *a) interpretation;*
- *b) performance;*
- *c) within the limits of the powers conferred on the court by its procedural law, the consequences of a total or partial breach of obligations, including the assessment of damages in so far as it is governed by rules of law ;*
- *d) the various ways of extinguishing obligations, and prescription and limitation of actions;*
- *e) the consequences of nullity of the contract [...].”*
- For its part, the law of the location of the asset governs the rights in rem relating to the movable assets, namely *“the content of the rights in rem, as well as the conditions for their creation or their transfer”* (D. Bureau, H. Muir-Watt, *Droit international privé*: PUF, 2007, t. II, no. 667).

B. Audit summarizes the scope of application of the *lex rei sitae*: *“the law of the contract must virtually yield to the lex rei sitae when it comes to relying on the security interest against third parties”, or “judging conditions for acquisition of the security interest, [...] its publication or its methods of realization”* (*Droit international*, 5<sup>th</sup> edition, 2008, p. 635, §777).

Consequently, for the purposes of relying on the security interest against third parties (creditors of the debtor, third-party acquirer), the law of the location of the asset will apply; thus, for example, it will govern the exercise and the details of the preferential right and the right to follow of the creditor and conflicts between liens.

Moreover, the *“lex rei sitae prevails as regards the possibility of creating this or that security interest; in particular it is the lex rei sitae which, logically, does or does not impose a numerus clausus of the security interests in rem”* (*Jurisclasseur Droit international*, Fasc. 555: *Sûretés personnelles et réelles* [Bundle 555: *Personal security interests and security interests in rem*], no. 104, saying the same thing: B. Audit, *Droit international*, 5<sup>th</sup> edition, 2008, p. 635, §777).

The law of the location of the property right and the law of the contract are therefore likely to combine when dealing with the origination/creation of the security interest.

It is our understanding that:

- the security interest agreement itself would be subject to the law of the contract as selected or implicitly designated: thus, the law of the contract applies in relation to the validity of the contract (existence, vitiation, etc., conditions of generally applicable contract law)
- the conditions/effects specific to the security interest are governed by the *lex rei sitae*.

Overall, this reading amounts to stating that the particular conditions and effects which result from the nature of the contract as a security interest agreement would be governed by the law of the location while the others, pertaining to the generally applicable contract law, would continue to be governed by the law of the contract.

Example of a US Patent encumbered by a security interest securing a transaction located in Europe.

In the example suggested:

- The law of the location would govern the enforceability and the effects of the security interests.

In view of the foregoing, given that the patent was filed and registered in the United States, the French conflict of laws rules would designate US law.

Because of the bilateral character of the conflict of laws rules, US law would be applied.

- The law of the contract determined by the parties or made applicable by virtue of the provisions of the Convention and of the Rome I Regulation would govern the conditions for the validity and the

personal effects of the instrument.

### **C. The specific European Union (EU) legislation**

It should be noted that the EU legislative texts lay down specific provisions as regards the law applicable to the **unitary patent**, to the **European Union trade mark** and to **Community designs**, taken together as “**objects of property**”. In our view, this must cover the law applicable to security interests relating to such property rights.

Specifically, with regard to the **unitary patent**, Article 7(1) of Regulation No 1257/2012 provides that:

*“A European patent with unitary effect as an object of property shall be treated in its entirety and in all the participating Member States as a **national patent** of the participating Member State in which that patent has unitary effect and in which, according to the European Patent Register:*

*(a) the applicant had his residence or principal place of business on the date of filing of the application for the European patent; or*

*(b) where point (a) does not apply, the applicant had a place of business on the date of filing of the application for the European patent”.*

Pursuant to these provisions, the law applicable to the unitary patent as an object of property is therefore that of the State in which the applicant had his residence/principal place of business or, if the latter was not resident, that of the State in which the applicant had a place of business.

Furthermore, Article 7(2) and (3) sets out specific provisions:

where two or more persons are registered as joint applicants, the applicable law is that of the country in which the joint applicant indicated first had his residence;

where no applicant has his residence, principal place of business or place of business in a participating Member State in which the patent has unitary effect, the applicable law is German law (as the law of the country where the European Patent Office has its headquarters).

With regard to **trademarks**, a similar provision is laid down in Article 16(1) of Regulation No 2015/2424, which provides that: *“an EU trade mark as an object of property shall be dealt with in its entirety, and for the whole area of the Union, as a national trade mark registered in the Member State in which, according to the Register:*

*(a) the proprietor has his seat or his domicile on the relevant date;*

*(b) where point (a) does not apply, the proprietor has an establishment on the relevant date”.*

The law applicable is therefore that of the State in which the proprietor had his seat or his domicile or, failing that, that of the State in which the proprietor had an establishment.

Furthermore, paragraph (2) of the said article provides that in cases which are not provided for by paragraph (1) of Article 16, applicable law is Spanish law.

?Finally, according to the provisions of paragraph (3), the applicable law is that of the State where the joint proprietor first mentioned has his seat if two or more persons are mentioned in the Register.

Finally, with regard to **Community designs**, Article 27 of Regulation No 6/2002 provides that: *“a Community design as an object of property shall be dealt with in its entirety, and for the whole area of the Community, as a national design right of the Member State in which:*

(a) the holder has his seat or his domicile on the relevant date; or

(b) where point (a) does not apply, the holder has an establishment on the relevant date.”

Furthermore, paragraph (3) of the said article provides that, in the case of joint holders, and in the case of a registered Community design, the applicable law is determined by reference to the first of the relevant joint holders in the order in which they are mentioned in the register.

Finally, when paragraphs (1), (2) and (3) are not applicable, the applicable law is Spanish law.

14) Can a choice of law provision in a security interest agreement over IPRs overrule the applicable law as to availability and effect?

no

Please explain:

We consider that the choice of the applicable law cannot overrule the law that is applicable in relation to the availability and effects of the security interest, which fall under the law of the location of the asset. Here, we refer the reader to the answers given to Questions no. 12 and 13 for more details.

The scope of application of each of the two laws is clearly established and the parties therefore cannot, by the use of an applicable law clause, arrange for the chosen law also to govern the availability and the effects of a security interest.

Specifically, with regard to availability, it appears to us to be difficult to envisage a law other than that of the property right determining whether or not it is possible to create a security interest over the property right in question.

With regard to the effects of the security interest, it again seems to be obvious that it is necessary to refer to the law of the location of the property right.

#### 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:

In principle, French law does not prohibit the use of other purely contractual mechanisms for the purposes of security, whether or not these fall within identified categories of contracts. Thus, in accordance with the principle of freedom of contract, it is always possible – on condition that the rules of public policy (*“ordre public”*) are complied with – to arrange a purely contractual regime which produces an effect similar to that of a security interest.

Nevertheless, the effectiveness of such an arrangement risks being limited by the principle of the relative effect of agreements (Art. 1165 of the Civil Code). In particular, the beneficiary of such a contract generally cannot benefit from a preferential right or a right to follow vis-à-vis other creditors of the security provider. Nevertheless, the situation can be different if the contract provides for a transfer of ownership of the IPR to the creditor.

A number of mechanisms make it possible to organize an assignment of the ownership of an IPR by

way of security – for example a “sale and leaseback” or a sale with a buyback option (sale with a right of redemption). However, for an IPR, an assignment will not be capable of being relied upon against third parties until it has been entered in the proper register. In the event of a sale with a buyback option, a mandatory provision (Art. 1660 of the Civil Code) limits to 5 years the period for which it can be stipulated to last, which may be restrictive.

## 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, the current French law governing security interests over IPRs would seem, overall, to be sufficient to provide certainty and predictability to the parties.

The mechanism of the pledge as set out in Article 2355 of the Civil Code offers two-fold security:

- there is no risk of the pledged IPR losing value since the debtor remains its proprietor and continues to exploit it until he defaults;
- in the event of a default by the debtor, the creditor has the option either to have the ownership of the pledged IPR assigned to him or to obtain payment of the debt by requesting the sale of the property right.

In addition, certain acts of a nature such as to affect the value of the IPR (in particular withdrawals of property-right applications and abandonments subsequent to their being granted) require the prior written consent of the creditor to be obtained.

The publication of the pledge is also liable to increase certainty in relation to the security interest and, as a corollary, to increase the confidence of creditors.

- However, the Group highlights certain practical difficulties associated with the fact that this publication is not undertaken on one and the same register.

In the case of a pledge of a business as a going concern, the security interest must be registered, within a period of 15 days from signature of the pledging instrument, at the registry of the Commercial Court (*Tribunal de commerce*) (Article L 143?16 of the Commercial Code).

In the case of a business which includes IPRs, the pledge must also be registered at the INPI “**on production of the certificate of registration issued by the clerk of the Commercial Court, within fifteen days following this registration in order to be valid with respect to third parties**”, Article L 143-17 of the Commercial Code).

In practice, a difficulty arises when the registry of the Commercial Court is not able to issue the certificate of registration within the period stipulated for registration at the INPI. It is then physically impossible for the security provider to register the security interest.

French law as it currently stands is not entirely satisfactory on this point.

The Group recommends that the obligation to produce, at the time of the registration of the pledge at the INPI, the certificate of registration issued by the clerk of the Commercial Court (Article L. 143-17 of

the Commercial Code) be abolished. The Group recommends that upon a pledge of an IPR being registered at the INPI, an obligation be introduced requiring an indication that the pledging of the IPR is taking place in the context of a pledge of a business as a going concern.

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

a) are there situations in which the rights of security takers should be limited or extended (e.g. if assignment of an encumbered IPR is possible by the security provider without involvement of the security taker)?

yes

Please explain:

The Group considers that, overall, a satisfactory balance exists between the rights of the security provider and those of the security taker/creditor.

- One point of imbalance which would merit correction is that of the ability of the security provider to dispose freely over the asset.

It has been seen (Question 6) that, in principle, the security provider can dispose of its IPR. The proprietor of a patent, a design or a trademark which is encumbered by a pledge is thus free to assign it, without necessarily obtaining the prior consent of the secured creditor.

The Group considers that the question of the security provider's right freely to assign the IPR is not regulated by the law, and this is a source of legal uncertainty. This point should be clarified.

The French Group advocates the introduction of a legal regime in relation to this point which is suppletive to the wishes of the parties and provides that, as a fallback, the security provider may freely assign the IPR.

- In order to improve legal certainty, the law should also deal explicitly with the case of the abandonment of a share of a patent (the only IPR for which a specific joint-ownership regime is provided). Pursuant to Art. L.613-31 of the IPC, the abandonment of a share of a patent held in joint ownership redounds to the benefit of the other joint owners. The law should specify that, in this case, the secured creditor benefits from a right to follow in relation to the abandoned share. Furthermore, the law should provide that, in the absence of any stipulation to the contrary, such an abandonment is not subject to the prior consent of the secured debtor.

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:

- In practice, in France, the pledging of an IPR always takes place without possession being ceded.

In principle, the security provider therefore continues to exploit its IPR and to profit from it (in particular by way of a licence), subject to the reservation that it does not act in its own interest, but also takes into account the interest of the creditor (preservation obligation borne by the security provider).

Consequently, prior to default, the creditor is not entitled to grant licences over the IPR without the consent of the security provider.

- On the other hand, it is entirely possible to structure the pledge contractually and to provide that the creditor will receive, in addition to the pledge, a percentage of the royalties received in connection with the exploitation of the IPR.

Given this contractual freedom, the Group does not consider that the rights of the creditor should be limited or extended.

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:

The French Group recommends that the scope of court-ordered pledges of IPRs be widened; on the basis of substantive law, this is possible only in the context of a court-ordered pledge of a business (Art. L. 531-1 of the Code of Collective Procedures). The court-ordered pledging of an IPR on its own should also be possible.

### 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:

Introduction

Yes, we consider that harmonization of the laws concerning security interests over IPRs is desirable.

**1)** As is evident from the WIPO Questionnaire (as defined in the guidelines for the question), significant differences exist between the various national laws with regard to the rules applicable to the availability, creation, enforceability and effects of security interests over IPRs.

Indeed, as is indicated in response to Questions 12) and 13), different national laws, including mandatory rules, can apply in a distributive manner to one and the same security interest, in particular in the case of a security interest encumbering a portfolio of IPRs containing both national and foreign



property rights.

This results in it being very complex to work out and reconcile all of the rules governing the availability, creation, enforceability and effects of one and the same security interest, and in legal uncertainty, since it may prove impossible, or at least extremely costly, to check these rules in each applicable national law.

Harmonization of the laws applicable to security interests over IPRs would thus make it possible to reduce these constraints and to improve the predictability of agreements relating to security interests over IPRs.

**2)** Nevertheless it is also evident from the WIPO Questionnaire that, in the vast majority of countries, the law applicable to security interests over IPRs originates both from the law of intellectual property and from other areas of law, or even exclusively from other areas of law, which may be of a mandatory nature.

Any harmonization of the laws applicable to security interests over IPRs would therefore have to reconcile this harmonization with the other applicable areas of law, which may prove tricky to implement.

**3)** Finally, it is evident from the WIPO Questionnaire that the national law of a majority of countries requires, for the security interest to be able to be relied upon against third parties, the security interest to be registered in a register, which may be specific to IPRs (in the majority of cases) or may not be.

It appears to us that any harmonization would also have to go in this direction.

In a scenario where security interests granted over portfolios containing a significant number of national and foreign property rights, registering the security interests in each of the different registers concerned can be complex and costly.

Besides the harmonization of the substantive rules, it would also be possible to envisage creating a common international register (maintained, for example, by WIPO) in which security interests could be registered for the purposes of being enforceable against third parties, and which would be responsible for liaising with the various national offices or registers concerned.

The general law of security interests over an intangible asset applies satisfactorily to IPRs, in particular because the general regime of non-possessory pledging allows the proprietor of an IPR to create a pledge while continuing to exploit its IPR.

However, certain specific features of IPRs in practice justify the existence of particular provisions, even if this is just organizing a legal publication mechanism.

In addition, provisions – preferably of a suppletive nature – defining the powers and duties of the creditor/security taker and of the debtor vis-à-vis the IPR granted as security would make it possible to clarify the security interests regime in the absence of contractual provisions, along the lines of what already exists for the organization of the joint ownership of IPRs. Such provisions would be able to limit the rights of the proprietor/security provider, for example, by prohibiting it from abandoning its property right or from limiting the scope thereof without the consent of the security taker, while determining who is to be responsible for the payment of the maintenance or renewal fees, or even requiring any grant of a licence or assignment of the IPR to be consented to by the creditor, organizing conditions and arrangements for an infringement action in the event that a presumed infringer is identified, etc.

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

yes

Please explain:

Apart from the specific provisions mentioned above and relating to questions of a “technical” nature regarding certain specific features of IPRs, it would seem preferable for security interests over IPRs to be governed by the same principles as security interests over other types of assets. The creation of a specific regime for intellectual property rights would not seem to be justified, and would run the risk of being a source of complexity and of legal uncertainty.

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

The pledge, as provided for in French law, should constitute the minimum standard in all countries because it has the following advantages:

- the debtor remains, until it defaults, the proprietor of the pledged IPR and continues to exploit it, thereby avoiding any depreciation in its value.
- in the event of default by the debtor, the legal regime applicable to the pledge leaves it to the creditor to choose either to have ownership of the pledged IPR assigned to it or to have a court issue an order for the sale of the pledged asset in order that the creditor can have its debt repaid in cash.
- the parties have contractual freedom allowing them to structure the legal regime of pledges to suit their own requirements.

23) Should the law be applied differently depending on the type of IPR? For example, should patents be encumbered exclusively with pledges, should trademarks be assigned to the security taker for the purpose of security?

no

Please explain:

It does not seem to us to be appropriate to lay down restrictive and/or limitative provisions as to what security interests are applicable to different types of IPRs.

While the preservation of certain IPRs may throw up specific issues that have to be taken into account when security interests are being created (for example risk of forfeiture on grounds of non-use or genericization, or risk of extinction of rights due to acquiescence, as far as trademarks are concerned), the ability to determine the type of security interest which is most suitable for the transaction and the IPR in question and, where appropriate, to structure the effects thereof contractually, should be left to the parties.

While the pledge is commonly used for IPRs and in particular for patents, the parties may have an interest in opting for other types of security interests that are available.

As far as trademarks are concerned, it does not appear to be appropriate to stipulate that the sole security mechanism available should consist in an assignment of the trademark for the benefit of the security taker. The assignment of the trademark may have significant consequences for the activity

and the rights of the debtor, and other types of security interests which are more flexible, such as the pledge, should be possible.

#### 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 law of security interests should ensure a fair balance between the interests of the secured creditor in not being deprived of the substance of its security and those of the security provider in not having the value of the IPR decrease on account of the security interest granted.

In principle, the security provider should thus be entitled to exploit its IPR as if it were not encumbered by a security interest, and to receive the fruits thereof.

On the other hand, the security provider should be subject to an obligation to preserve its encumbered IPR.

As the security provider remains the proprietor of its IPR, the opportunity to undertake defensive actions (for example infringement actions, applications for provisional measures, etc.) should be exclusively reserved for it.

As a corollary, the secured creditor should retain a right of veto in respect of the most serious acts which are likely to endanger the existence or integrity of the secured IPR (for example withdrawal of patent application, total or partial abandonment of the property right, etc.).

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

yes

Please explain:

Unless there is any contractual stipulation to the contrary, the security provider should be able to assign its encumbered IPR to a third party without having to obtain the consent of the creditor.

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

The French Group considers that the creditor/security taker should not benefit from the fruits of the exploitation of the IPR provided as collateral.

On the other hand, it should be able to oppose the performance by the security provider of acts capable of affecting the scope or the very existence of the IPR provided as collateral. The creditor's consent should thus be required in the event of:

- withdrawal of a patent application;
- abandonment of the entirety of a granted patent or of some of its claims;
- limitation of the scope of a granted patent by amendment of one or more of its claims;

- total or partial withdrawal of a trademark registration;
- total or partial abandonment of a registered trademark;
- total or partial withdrawal of a design application;
- total or partial abandonment of a registered design;
- assignment of the IPR (unless there is a stipulation to the contrary);
- abandonment of a share of a patent or patent application held in joint ownership (unless there is a stipulation to the contrary).

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

yes

Please explain:

In principle, it is the proprietor of the IPR who should be responsible for the maintenance and defence of the IPR provided as collateral.

1) For security interests where there is no transfer of ownership, the French Group considers that the security provider should be responsible for the maintenance and defence of the IPR provided as collateral.

The security provider should thus pay the fees necessary for maintaining in force the IPR provided as collateral. In the event that the security provider neglects to do this, the creditor should be able, for the purposes of preserving its security interest, to pay the fees itself and to have recourse against the security provider in order that it is reimbursed.

The security provider should also defend the IPR provided as collateral whenever its validity is challenged by third parties, whether in administrative proceedings or court proceedings.

2) On the other hand, for security interests where there is a transfer of ownership, it is the temporary proprietor (trustee) who should be responsible for the maintenance and defence of the IPR provided as collateral.

However, the French Group considers that the parties should be able to modify these principles by way of contractual provisions.

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 French Group considers that it is important here to make a distinction according to whether or not the lapse of the IPR provided as collateral results from a breach by the security provider of its preservation obligation.

If the lapse of the IPR can be attributed to a breach by the security provider, the creditor should be able to obtain from the debtor the creation of a security interest over another IPR (or an asset of another nature) of a value equivalent to that of the IPR provided as collateral. In the event that it is impossible to obtain such a substitute security interest, the creditor should be able to demand the forfeiture of the term of the secured debt.

If the lapse of the IPR cannot be attributed to a breach by the security provider, the creditor then loses its security without being able to seek substitute security or the forfeiture of the term of the secured debt.

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

yes

Please explain:

Contractual arrangements should be encouraged since they promote the creation of “made to measure” security interests which reflect the objectives sought by the parties in the context of their economic transaction.

In particular, it would be desirable for the parties to be able to modify contractually the effects if a security interest over an IPR in order:

- that the security provider can continue to exploit its IPR;
- that the security provider can, either with the consent of the security taker or without its consent, bring infringement actions;
- that the security provider pays the fees for the maintenance in force of the IPR;
- that the security provider can freely assign its secured IPR.

Nevertheless, these possibilities of contractual arrangement should be limited by the provisions of mandatory law, such as those relating to collective insolvency procedures.

#### 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?

**1)** It appears to us that the law applicable to the availability and the effects of security interests over an IPR should be the law of the location of the encumbered IPR, i.e. that of the country (region) in which the IPR was filed and/or registered, as is the case today in French private international law (see our answers to Questions 12) et 13)).

IPRs are by their nature territorial (national or regional) and it does not seem to us to be conceivable to make them subject, as far as the availability and effects of a security interest are concerned, to a law other than that which governs their conditions of creation, their existence, their validity and their effects in the national (or regional) law which is applicable to them, and which often contains mandatory provisions.

This could result in incompatibilities and a lack of predictability, in particular for the applicant for a national or regional IPR. Specifically, opting for the law of the location of the asset will obviously make it easier for third parties to be aware of the content of the applicable law.

On the other hand, since significant differences exist between the national laws in relation to security interests over IPRs, we are in favour of a harmonization of the laws applicable in this area, as indicated in response to Question 19).

Such a harmonization would make it possible to enhance legal certainty in relation to security interests over IPRs, notwithstanding the distributive application to each encumbered IPR of its law of location as far as the availability and the effects of the security interest are concerned.

**2)** Even though the law of the location should be applicable to the availability and the effects of security interests over an IPR, the security interest agreement per se should be able to be made subject to a different law (*a fortiori* in the scenario where the security interest is granted over a portfolio containing national and foreign IPRs) chosen by the parties or determined by the applicable conflict of laws rules.

The law of the contract will necessarily apply, in particular, to certain effects of the security interest, in particular to the obligations of the parties and to certain aspects of the realization of the security interest.

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

yes

Please explain:

As we understand it, the question relates to the law applicable to the contract itself (i.e. its existence, its validity, the obligations of the parties, etc.) and not to the law applicable to the availability and effects of the security interest.

The law applicable to the availability and the effects of the security interest is, and in our view should be (as indicated in response to Question 30)), the law of the location of the IPR, that is to say that of the country (or region) in which the IPR was filed and/or registered. This law in principle contains mandatory provisions from which the parties should not be able to derogate.

On the other hand, the parties should be able to derogate from the law applicable to the contract per se, and the law chosen by the parties (or the law freely selected) should in principle be the applicable law.

This solution is necessary in order to comply with the principles adopted in the conflict of laws rules relating to contractual obligations and in particular, for France, in the Rome I Regulation.

#### 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.

Not relevant

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

Not relevant

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

Pharma, carmakers, telecommunications

#### Summary

Under French law, there is no special legal regime of security interests over IPRs. The general provisions of the Civil Code are applicable. Only few specific provisions take into consideration particular issues concerning IPRs, such as the filing of security interests on register to ensure their

enforceability.

Three different security interests are possible on IPRs: the pledge, the retention of title clause and the trust by way of security. In practice, the pledge is almost exclusively used.

The French group has not identified any major reform of French law to improve the regime of security interests on IPRs. However, clarification would be helpful to improve legal certainty.

The French Group considers that harmonization of security interests laws at the international level is desirable, because the pledges have frequently subject of IPRs portfolios from different jurisdictions. The pledge appears to be the most adequate collateral. It is desirable that the legal system is, in principle, sppletive to the wishes of the parties in order to adapt each transaction.

Furthermore, since pledges often involve IPRs portfolios covering different countries, a centralized registry to WIPO would be desirable.