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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:

Latvian law does explicitly provide creation of security interests over IP objects.

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:

Regulation in relation to security interests over IP objects is provided by sui generis IP acts which refer to regulation of commercial pledges (subject to recent changes entered into force as of 01 January 2016).

Though IP objects may be subject to seizure during pending court proceedings, this possibility is not considered within this Report as it is civil procedural remedy and, therefore, does not involve voluntary imposition of security interests over IP objects.

- 3) Under your Group's current law, what types of security interests are available for IPRs? In addressing the questions in sub-paragraphs a) to c) below, please specify briefly the main characteristics and differences of the available types of security interests.

a) Does your law provide for security interests which are characterized by the full assignment of the underlying IPR to the security taker? For example, an assignment of the IPR for the purpose of security or authorization to dispose/use fully in the event of default.

no

Please explain:

No, Latvian law does not explicitly envisage such possibility yet it could be performed on the basis of a pledge agreement.

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:

Regulation of commercial pledges (similarly like general regulation of pledges included in the Latvian Civil Act of 1937, i.e. its Article 1319) allows selling an object of the commercial pledge only in the case of default of a pledgor (a security provider) to recover the sum of the debt due (Article 36 (1) of the Commercial Pledge Act).

c) Does your law provide for security interests that authorize the security taker to use the underlying IPR? For example, usus fructus rights that authorize the creditor to use and/or realize proceeds from the exercise of the IPR only during the term of encumbrance. Is any right to use the encumbered IPR conditional upon default of the security provider?

yes

Please explain:

Such a possibility is allowed in the case of commercial pledges if parties have so agreed whereby a pledgee (a security taker) may possess and use a pledged IP object (Article 24 of the Commercial Pledge Act). However, neither sui generis IP acts nor the Commercial Pledge Act provides any regulation on terms and liability of such use.

- 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.

Commercial pledges may be viewed as a usual form for creation of a security right in relation to IP objects. It is especially related to recent legislative changes in regulation of commercial pledges and pledging IP objects whereby a commercial pledge is explicitly provided as the sole possibility offered by Latvian law for establishing security rights over IP objects.

Effects of security interests

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

no

Please explain:

A provider of commercial pledge is not restricted in his or her right to use a pledged IP object including licensing unless it is otherwise stated in a commercial pledge agreement.

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

yes

Please explain:

A commercial pledge provider (pledgor) is entitled to alienate a pledged IP object with written permit of a commercial pledge taker (pledgee).

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 pledged IP object may be alienated on the basis of written permit of a commercial pledge taker (pledgee).

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

yes

Please explain:

In the case of allowed alienation (i.e. on the basis of written permit of a commercial pledge taker), a commercial pledge ceases to exist unless an agreement with an acquirer does not provide otherwise. However, if alienation of a pledged IP object took place without written permit of a commercial pledge taker, i.e. in the case of un-allowed alienation, a commercial pledge would remain valid unless an acquirer of a pledged IP object would not establish himself or herself as a bona fide acquirer.

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

Regulation of commercial pledges provides the list of grounds when a pledgee (a security taker) may enforce its right over pledged IP object before default (Article 41 (2) of the Commercial Pledge Act). Likewise, parties to a commercial pledge agreement are allowed to agree on grounds other than those included in above list of grounds when the security taker may enforce its rights before default (Article 41 (2) of the Commercial Pledge Act).

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

As already stated above, neither sui generis IP acts nor the Commercial Pledge Act provides any regulation on terms and liability of use of a pledged IP object. It may be, however, assumed that such responsibility lies within a person who uses that object which in Latvia usually is a pledgor (security provider). He or she, therefore, is responsible for recovery of damages if a pledged IP object has such deficiencies that its value does not reach the amount of secured claim (Article 28 of the Commercial Pledge Act). As regards a pledgee (security taker), he or she must maintain a thing as a careful master (Article 25 (1) of the Commercial Pledge Act).

- 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.

If a pledged IP object ceases to exist, a commercial pledge in relation to this object expires (Article 48 (1) (6) of the Commercial Pledge Act). Though the Commercial Pledge Act does not provide regulation for responsibility of a a pledgor (security provider) in this situation, general regulation of damages may be applicable for a compensation claim against the pledgor (security provider) (Article 1779 of the Latvian Civil Act of 1937).

- 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:

The legal effects of commercial pledges discussed above may be modified by parties to a commercial pledge agreement unless they do not violate mandatory provisions of the Commercial Pledge Act. Likewise, if a pledge over an IP object is established on the basis of a pledge agreement based on general regulation of pledges, it may contain rules other than in the case of commercial pledges unless they do not violate mandatory provisions of Latvian civil law.

#### 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?

yes

Please explain:

Latvian law does provide for conflict of laws in relation to pledges in general which cover, inter alia, pledges over IP objects. According to Article 18 (1) of the Latvian Civil Act of 1937, rights in rem including rights arising from pledges (pledge rights) shall be determined in accordance with the law of the place where the thing is located (i.e. *lex loci rei sitae*). Therefore, rights to pledges over IP objects shall be subject to law of a country where a particular IP object is registered.

- 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.

According to Latvian conflict of laws referred to in the previous answer rights to pledges over foreign IP objects would be law of a foreign country where a respective IP object is registered (i.e. *lex loci rei sitae*).

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:

A choice of law is not possible in the case of applicable law for pledges over IP objects.

#### 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:

It is possible to establish a solely contractual regime for creating a right to a pledge over an IP object as it is indicated in the answer to Question 3 above. However, this contractual regime will not be binding to third parties and will exist solely between the parties to such a pledge agreement. However, even such a solely contractual regime shall be subject to mandatory conflicts of law rules.

## **II. Policy considerations and proposals for improvements of the current law**

16) Is your Group's current law regarding security interests over IPRs sufficient to provide certainty and predictability to the parties?

yes

Please explain:

The current regulation on securities over IP objects provides necessary clarity, certainty, and predictability to contracting parties as well as third parties.

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

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

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

yes

Please explain:

The current regulation ensures sufficient protection of parties to a commercial pledge agreement from the IP perspective yet certain improvements may be made (see the answer to the next question).

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:

Latvian law concerning establishing pledges over IP objects may be improved on several occasions. Specifically, it may be improved in relation to legal force of records on commercial pledges entered into IP registers by providing their constitutive nature, i.e. a commercial pledge over an IP object is in force only if a particular record is made within a respective IP register. This proposal would lead to prohibition solely contractual pledges, i.e. those which are not registered as commercial pledges, as well as disputes over bona fide acquisition of a pledged IP object and therefore provide legal certainty and protection of creditors. Likewise, special rules should be introduced concerning responsibility of a party who uses a pledged IP object concerning conditions of its use, licencing, maintenance, and protection.

### III. Proposals for harmonisation

19) Does your Group consider that harmonization of laws concerning security interests over IPRs is desirable?

no

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:

There should be specific provisions for establishing pledges for IP objects in addition to general regulation over security interests. These specific provisions could reflect specifics of IP objects including their maintenance, licensing, protection etc. during the term of imposition of a pledge.

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

no

Please explain:

See the answer to the previous question.

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

See the answer to the question No 19 above.

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

yes

Please explain:

The law governing pledges (security interests) concerning IP objects should differentiate depending on specifics of a particular IP object. However, no one IP object including patents shall be subject solely to one specific security interest while allowing choice of different security interests for other IP objects. At the same time, assignment of a trade mark to a pledgee (security taker) during the time of validity of a security interest may not be considered as favourable yet it could be possible to allow its use by the latter during that time.

#### Effect of security interests

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

no

Please explain:

The right to use an IP object subject to a security interest shall not be restricted at the legislative level rather it should be left for the parties to a commercial pledge agreement establishing a security interest.

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

no

Please explain:

No, if a respective IP object is subject to a security interest, it should not be subject to assignment of such an IP object (see also the answer to the question No 23 above).

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

Such rights of the security taker shall not be regulated at the legislative level but on the basis of a contract establishing a security interest (see also the answer to question No 24 above).

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

yes

Please explain:

Yes, depending on a party who uses a pledged IP object if the contract does not state otherwise.

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 legal consequences in these situations shall be recovery of damages by a pledgee (security taker) from a pledgor (security provider) in the amount of the claim secured by a respective security interest or a claim for provision of equivalent security in conjunction with seizure of property of the security

provider if such a remedy is not provided or seems not to be appropriate.

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

yes

Please explain:

In accordance with the freedom of contracts the parties to such a contract may modify contractual provisions in relation to consequences discussed in the previous answer.

#### Applicable law

30) Which law should apply as to the availability and the effects of security interests where a foreign IPR is provided as collateral? Why?

The current regulation on applicable law is sufficient and corresponds to the IP nature, therefore, it should not be changed.

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

no

Please explain:

No, a choice of law for applicable law in the case of security interests shall not overrule exclusive jurisdiction.

#### Additional considerations and proposals

32) To the extent not already stated above, please propose any other standards your Group considers would be appropriate to harmonize laws relating to security interests over IPRs.

N/A

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

N/A

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

#### Summary

The Latvian law provides sui generis regulation for security interests over intellectual property (IP) objects through sui generis IP acts in conjunction with regulation of commercial pledges being part of commercial law. Though sui generis IP acts provide that a security interest over IP objects shall be



established in the form of commercial pledge, general regulation of pledges in conjuncture with regulation of commercial pledges itself does not prohibit establishing a security interest other than a commercial pledge on the basis of a pledge contract. Such a contractual security interest, however, will be governed solely on the basis of that contract and will not be in force against third parties. The current Latvian regulation for establishing security interests over IP objects should be improved concerning the legal force of records on commercial pledges entered into IP registers by providing their constitutive nature, i.e. a pledge over an IP object is in force only if a particular record is made within a respective IP register; introducing special rules concerning responsibility of a party who uses a pledged IP object concerning conditions of use, licencing, maintenance, and protection. On a general basis, regulation of security interests concerning IP objects should contain specific provisions in addition to general regulation over security interests by reflecting specifics of IP objects including their maintenance, licencing, etc.