



Submission date: 12th July 2016

2016 – Study Question (General)

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Security interests over intellectual property

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Date	04-05-2016

I. Current law and practice

You are reminded that **IPRs** refers to patents, trademarks and registered designs only.
If more than one type of security interest is available under your Group's current law, please answer the questions for each type of security interest, as applicable.

Availability of security rights

1) Does your Group's current law provide for the possibility of creating security interests over IPRs?

yes

Please explain:

Considering that patents, trademarks and designs are intangible goods, they can all be granted as security interest pursuant to Mexican Laws. Furthermore, Articles 62, 64 and 143 of the Mexican Industrial Property Law contemplates the possibility of creating security interests over patents, trademarks and designs.

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

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

yes

Please explain:

The Mexican Legal system is rigorously formal and requires that both, credit and collateral instruments

involved in a financing be properly documented. It exists specific provisions such as article 355, section I, of the General Law of Negotiable Instruments and Credit Operations (hereinafter referred as “NICO”), which establishes that trademarks, commercial names and other rights owned by debtor may be subject of pledge. Therefore, the granting of IP as security interests will be through a pledge agreement contrary to a mortgage agreement that can only be suitable for real estate assets.

Moreover, article 143 of the Industrial Property Law, Articles 5 and 11 of the Regulations under the Industrial Property Law, and provisions under the Civil Code (general law principles) must be observed. It is important to bear in mind that the Civil law regulates intangible assets like intellectual property (hereinafter referred as “IP”) as movable assets.

- 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:

A security interest on IP can be created by means of (a) a Security Trust, (b) a Commercial Pledge or (c) a Pledge without Transfer of Possession. Contrary to the pledge, by means of the Security Trust title of the collateral is transferred to the trust which main corporate object will be to secure the corresponding secured obligations.

If a Security Trust is implemented: (i) the security trust agreement (and any subsequent related contribution agreement covering the assignment of IP to the security trustee) should be executed or ratified before a Mexican Notary Public if the value of the IP is equal to or higher than the peso equivalent of 250,000 Investment Units (hereinafter referred as “UDIs”), which are value units used to fulfill obligations which value is established by the Central Bank of Mexico in accordance with the price increases in the national economy; (ii) to make the security trust enforceable upon third parties it must be registered before the Sole Registry of Movable Assets (hereinafter referred as “RUG”) and (ii) the security trust agreement (and any subsequent related contribution agreement) should be registered with the Mexican Institute of Intellectual Property (hereinafter referred as “IMPI”).

In addition, the NICO establishes on its 395th article that the trustee for a security trust should be one of the following institutions:

-Credit Institutions

-Insurance Institutions

-Securities Institutions

-Brokerage Firms

-Special-purpose Financial Institutions duly registered before the National Commission for the Protection and Defense of Financial Services Customers

-Public Bonded Warehouses

-Credit Unions

-Mutual Fund Management Companies that fulfill the requirements established in the -Mutual Funds Act

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:

A pledge is a security normally granted over all types of rights and moveable property such as shares, equipment, negotiable instruments, collection rights and IP.

The purpose of a pledge is to secure the performance of an obligation and its priority for payment, granting an action in favor of the corresponding creditor to recover from a default by debtor in connection with the secured obligations. Accordingly, if a default occurs, the creditor can judicially request foreclosure over the pledged asset and get paid from the proceeds derived from the sale of the asset.

If a Commercial Pledge is implemented, the pledge agreement should be registered with the IMPI.

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:

Pursuant to Mexican Law, Commercial Pledges can be either possessory or non-possessory:

- Possessory pledge - the pledgor is dispossessed of the asset by the lender to guarantee the performance of the obligation.
- Non-possessory pledge - the borrower maintains possession and operation of the pledged asset. This is a very useful vehicle for the creation of floating liens over assets for which possession and operation should remain with the borrower.

If a Pledge Without Transfer of Possession is implemented: (i) the pledge agreement should be executed or ratified before a Mexican Notary Public if the amount of the secured obligation thereunder is equal to or higher than the peso equivalent of 250,000 UDIs; (ii) for purposes of making the referred pledge without transfer of possession enforceable upon third parties it must be registered before the RUG and (iii) from an intellectual property standpoint, the pledge agreement should be registered with the IMPI.

Additionally, we must consider that on October 7, 2010 the Mexican Ministry of Economy launched the RUG, where any potential buyer or creditor may verify if a certain good is currently set as collateral. Even registration at RUG is not mandatory, it is highly recommended considering that it provides publicity of the pledge in front of third parties and it is an instrument that it is considered helpful to provide legal certainty to creditors when a specific security may not be registered at IMPI or if registered, is not public (such as patent applications, which are kept confidential), thus making it impossible for creditors to determine if a partner application has already been set up as collateral.

Any security interests on IPRs are recorded at the IMPI to make them enforceable upon third parties.

- 4) If more than one type of security interest is available under your Group's current law, what types are commonly used for IPRs? Please also specify if certain types of security interests are exclusively used for certain types of IPRs in your country. For example, patents may commonly be encumbered with pledges, while trademarks may commonly be assigned to the security taker.

In view of the above, the most common form of security granted over IPRs is the pledge without transfer of possession (prenda sin transmisión de posesión) and by means of a security trust (although the costs may be higher than the pledge alternative).

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:

Under a pledge without transfer of possession (the most commonly used security interest for IPRs), the property remains in debtor's hands. As previously mentioned, the pledge without transmission of possession is an in-rem right concerning movable property or rights that guarantee the fulfillment of an obligation while enabling the debtor to maintain the material possession of the pledged property. This kind of in-rem right allows the debtor to use the assets for his commercial activities even if they are pledged in favor of a creditor.

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

yes

Please explain:

Yes, the security provider may assign encumbered IPRs to third parties, with the previous authorization in writing from the creditor.

- 7) If yes:

- a) under what conditions may an IPR be assigned (e.g. obligation to obtain consent from the security taker, public notification or registration)?

The consequence of an assignment is that the same regulations will apply to such acts as applied to the legal act of origin.

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

yes

Please explain:

As mentioned above, the creditor must authorize the assignment of the encumbered goods.

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

A secured lender is entitled to enforce a security interest upon the occurrence of an event of default. In such scenario, the pledgee may foreclose and enforce the sale of the pledged property through a judicial proceeding. Once the sale takes place, the pledgee has the right to be paid from the proceeds of the foreclosure proceeding. However, for the case of the Non-Possessory Pledge, if the proceeds are insufficient, a deficiency judgment will be rendered.

Furthermore, a commercial possessory pledge agreement may be enforced through a special judicial procedure set forth in the NICO; the non-possessory pledge may be enforced through a special judicial foreclosure procedure set forth in the commercial code, and a security trust agreement typically provides that upon the occurrence of an event of default of the settlor under the financing documentation, the beneficiary may request from the trustee the sale of the collateral by means of an extrajudicial foreclosure procedure. If an extrajudicial foreclosure procedure is not contemplated, then a security trust may be enforced through a special judicial procedure set forth in the Commercial Code.

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

Since the security provider is in possession of the IPRs by means of the non-possessory pledge, unless otherwise agreed, he shall be responsible for maintenance and defense. For possessory pledges, the security taker is responsible for the maintenance and defense of the IPRs provided. In case of a security trust, the obligation of maintenance will be in charge of the trustee unless the parties agree that the beneficiary will be responsible for it.

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 the name, representative or address of a pledgee changes during the term of the pledge, an application for recordation of change of registered particulars may be made. If a pledge relationship terminates due to discharge of liability or other causes, an application for recordation of the termination of pledge shall be filed. Otherwise unrecorded entry shall have no effect against any third party.

In general, the expiration of the underlying debt secured by a pledge will also cause the pledge to be terminated, that is, if the secured obligation has been fulfilled. If the IPR expires for a failure in the maintenance, the creditor might be entitled to take actions.

In the event the collateral ceases to exist, or reduces its value, it is possible for the parties to agree for its substitution.

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 a general rule the parties are entitled to modify the contractual provisions. An example of a contractual provision that can be modified between the parties is the scenario that provides that if IP subject to a security interest is infringed by a third party, the applicable law does not allow the secured creditor to take legal action to preserve the value of its security. Nevertheless, the debtor and secured creditor have the autonomy to determine the right to do so in their agreement. Thus, the parties may agree on any particular conditions in the corresponding agreement, provided same do not contravene express legal provisions

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:

Under our current law, the security interest over IPRs applies for foreign and national portfolios as well, without conflicts of any kind.

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.

Assets subject to the security interest located in Mexico may be subject to security agreements governed by foreign law; however, it is noteworthy to mention that when enforcing the execution of the security, then Mexican laws apply (pursuant to the Federal Civil and Commercial Code). Mexico is not party to any specific treaty (bilateral or multilateral) regarding enforcement of guarantees or securities.

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

yes

Please explain:

The choice of a foreign law is a valid choice of law pursuant to the laws of Mexico. However, under Mexican law, in order to have a valid and binding submission to jurisdiction, all parties to the relevant agreement must: (i) submit to a specific jurisdiction (or jurisdictions); and (ii) clearly and expressly waive their rights to any other jurisdiction to which any of them may be entitled to by reason of their present or future domicile or otherwise. A final judgment rendered by a foreign court of competent jurisdiction would be enforceable against its parties in the competent courts of Mexico, pursuant to Article 1347-A of the Commercial Code.

The courts of Mexico will recognize and enforce a final judgment rendered by a foreign court; provided, however, that recognition and enforcement of a foreign judgment by a Mexican court will be subject to prior determination by the Mexican court that such foreign judgment complies with the provisions of Book V, Title I, Chapter XXVII of the Mexican Commercial Code, Articles 569 and 571 of the Mexican Federal Code for Civil Procedure and related provision thereof, which in general terms provide that:

-such judgment is obtained in compliance with legal requirements of the jurisdiction of the competent court rendering such judgment, in compliance with all legal requirements of the corresponding security agreement and in compliance with formalities established pursuant to applicable international treaties;

-service of process was made personally, by hand, on defendant or on its duly appointed process agent provided, however, that if such process agent is an entity, the service of process should be made to a duly authorized representative of that entity;

-such judgment does not contravene Mexican law, public policy of Mexico, international treaties or agreements binding upon Mexico or generally accepted principles of international law;

-the applicable procedure under the laws of Mexico with respect to the enforcement of foreign judgments, including the issuance of a letter rogatory by the competent authority of such jurisdiction requesting enforcement of such judgment and the certification of such judgment as authentic (Apostille or legalization by the Mexican consulate, as applicable) by the corresponding authorities of such jurisdiction in accordance with the laws thereof is complied with;

-such judgment is final in the jurisdiction where obtained;

-the action in respect of which such judgment is rendered is not the same cause of action among the same parties, pending before a Mexican court in a proceeding in which (a) process has been served in accordance with Mexican law or (b) a letter rogatory has been delivered to the competent authorities in accordance with Mexican law;

-the foreign courts recognize the principles of reciprocity in connection with the enforcement of Mexican judgments;

-the letter rogatory and its enclosures have to be translated into Spanish by a duly authorized translator in Mexico;

-the plaintiff must designate a person and an address in the City in Mexico where enforcement will be carried out; and

-The enforcement of a non-Mexican judgment must not be contrary to Mexican law, Mexican public policy, international treaties or agreements binding on Mexico or generally accepted principles of international law.

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:

Mexican Law allows private parties to contract in their own terms, therefore, an agreement that is not mentioned in the corresponding laws, may be created as long as it does not contravene Mexican legislation.

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:

In the last few years, a series of changes in the Mexican laws governing secured transactions have made lending against a personal property more attractive to lenders to Mexican companies. The changes involved amendments to the substantive law of secured transactions, including the introduction of new concepts such as non-possessory pledges and guaranty trusts and the introduction of the RUG. As part of the Mexican government's "financial reform" package of laws, the laws governing civil procedure and the enforcement of security interests granted by debtors against personal property were amended, according to the legislative history the changes are intended to "modify the commercial legal framework for the purpose of making procedures more efficient, provide incentives for the general population to have access to credit, and to benefit the development of business in our country." Considering the latter, we can conclude that our current law provides certainty and predictability to the 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)?

yes

Please explain:

Yes, the Financial Reforms strengthen the Mexican Financial System by giving greater legal certainty and security in all financial transactions, the rights of both parties in any security agreement are well protected, however, it is possible for the parties to create additional rights on the agreement than those provided in law.

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

yes

Please explain:

Yes, depending on the type of security subject matter of the transaction, the parties may agree to extend or limit the rights of security providers. For instance, by means of the trust, title to the corresponding collateral is transferred to the trust. Accordingly, upon an event of default, security providers' rights can be limited as to the participation in the foreclosure proceeding of such goods for fulfillment of the secured obligations.

18) Are there any aspects of these laws that could be improved? Are there any other changes to your Group's current law that would promote transactions involving IPRs as collateral? If yes, please briefly explain.

no

Please explain:

In general, we believe that the amendments of the Financial System and related laws enacted in 2014 represent an important step in strengthening and modernizing Mexican financial laws and institutions, a step that will foster much greater legal certainty and security in financing transactions in Mexico, from the perspectives of both creditors and debtors.

Commercial Law is very dynamic; it is under a constant change due to commercial practices and foreign legislation. Notwithstanding the foregoing Mexican Law is currently very accurate for security interests and the protection of the rights for both parties in this kind of agreements may be compared with other legislations.

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?

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

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

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?

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?

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

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

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

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)?

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

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?

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

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.

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

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

Summary

Intellectual property rights are considered as intangible goods; as such, a security interest on intellectual property can be created by means of: (a) a Security Trust; (b) a Commercial Pledge; or (c) a Pledge without transfer of possession. Due to the rigorous formal nature of the Mexican Law, credit and collateral instruments involved in a financing must be properly documented; otherwise, their enforcement could become extremely difficult. The most common form of security granted over IPRs is the pledge without transfer of possession (prenda sin transmisión de posesión) and by means of a security trust; moreover, any security interests on IPRs are recorded at the IMPI to make them enforceable upon third parties.

In the last few years, a series of changes in the Mexican laws governing secured transactions have made lending against a personal property more attractive to lenders to Mexican companies. As part of the Mexican government’s “financial reform” package of laws, the laws governing civil procedure and the enforcement of security interests granted by debtors against personal property were amended.

According to the legislative history the changes are intended to “modify the commercial legal framework for the purpose of making procedures more efficient, provide incentives for the general population to have access to credit, and to benefit the development of business in our country.” Considering the latter, we can conclude that our current law provides certainty and predictability to the

parties.