



Summary Report

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2016 – Study Question (General)

Security interests over intellectual property

This Study Question primarily concerns security interests (e.g. pledges, mortgages, equitable, fixed or floating charges) over registered intellectual property rights. For the purposes of this Study Question, references to **IPRs** are limited to patents, registered trademarks and registered designs, and exclude all other intellectual property rights, such as trade secrets, unregistered designs or copyright.

IPRs often comprise a significant share of the assets of high-tech companies. Such companies are increasingly using their IPR portfolios as collateral to secure monetary claims of capital providers in the context of loans, forfaiting¹, venture capital investments and other forms of investment. Particularly in the case of international financial transactions, the practical use of multinational IPR portfolios as collateral is contingent on the predictability, feasibility, availability and effect of the security interests in the relevant jurisdictions. Currently, legal regimes regarding the use of IPRs as security interests vary from country to country to a significant degree.

The Reporter General has received Reports from the following Groups and Independent Members in alphabetical order: Albania (Independent Member), Argentina, Australia, Austria, Belgium, Bosnia/Herzegovina (Independent Member), Brazil, Bulgaria, Canada, Caribbean Regional Group, China, Cyprus (Independent Member), Denmark, Egypt, Estonia, Finland, France, Germany, Hungary, Israel, Italy, Japan, Latvia, Luxembourg, Malaysia, Malta (Independent Member), Mexico, the Netherlands, New Zealand, Norway, Pakistan, Paraguay, the Philippines, Poland, Portugal, the Republic of Korea, Singapore, Slovenia, Spain, Sri Lanka, Sweden, Switzerland, Turkey, the United Kingdom (**UK**), the United States of America (**US**), Uruguay.

45 Reports were received in total. The Reporter General thanks all contributors for their helpful and informative Reports.

The Reports explore the different types of security interests over IPRs together with their main characteristics and provide a comprehensive overview on national and regional laws and policies relating to the use of IPRs as security interests. This Summary Report cannot attempt to reproduce the detailed responses given in any given Report. If any question

¹ A financial transaction involving the purchase of receivables by a party who takes on all the risks associated with the receivables but earns a margin.

arises as to the exact position in a particular jurisdiction or for a detailed account of any particular answer, reference should be made to the original Reports. See http://aippi.org/committee/?committee_type=11&status=Active

In this Summary Report:

- references to Reports of or responses by one or more "Groups" may include references to Independent Members;
- where percentages of responses are given, they are to the nearest 5%; and
- in Part IV below, some conclusions have been drawn in order to provide guidance to the Study Committee for this Question.

I. Current law and practice

Availability of security rights

1) Does your Group's current law provide for 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).

The great majority of the Groups reported that their current law provides for the possibility of creating security interests over IPRs.

Only 3 Groups reported no legal regime in place that allows IPRs to be used as security interests². The Paraguayan Civil Code expressly prohibits the use of IPRs as security interests, through contractual provisions or private agreements of any kind.

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)?

While the vast majority of Groups reported that their current law provides for the possibility of creating security interests over IPRs, only 60% of jurisdictions define the available types of security interests relating to security interests over IPRs by specific provisions, while 40% apply general commercial law principles.

Of those 60% of Groups indicating that their jurisdiction defines the available types of security interests relating to security interests over IPRs by specific provisions, about two thirds of these Groups state that the legal procedure of using IPRs as security interests relies on both specific IPR-related provisions as well as general commercial provisions. In most of those cases, the specific IPR-related provisions deal with the procedure of recording

² Malta (Independent Member), Albania (Independent Member) and Paraguay.

such security interests in national registries while general commercial provisions provide the legal regime for the creation of security interests over IPRs.

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.

Almost 60% of Groups reported that their law provides for security interests which are characterized by the full assignment of the underlying IPR to the security taker.

Groups variously listed more than 15 different security interests.

- 60% of the jurisdictions allow for various forms of pledges characterized by the full assignment of the underlying IPR to the security taker.
- 20% provide for contractual agreements in such cases.
- 20% of the Groups also reported that mortgages can be used for such purposes.
- In 20% of jurisdictions, IPRs may be fully assigned as a security interests via general securities, trusts by way of security or security assignments.
- An additional 10% of the jurisdictions allow for fixed or floating charges to fully assigned IPRs.
- 3 Groups³ reported that agreements concerning full assignment of IPRs is not mentioned in their statutes, but this can still be agreed upon contractually.
- The Australian Group stated that with the recent introduction of new legislation, it is being debated whether the common law concepts of “mortgage” or “charge” have been abolished and replaced by a wholly statutory form of security.

As can be seen from these numbers, there are widespread differences between the types and categories of security interests available for the full assignment of the IPR to the security taker. For further detail, refer to the respective Group Reports.

b) Does your law provide for security interests that authorize the security taker to realize the security interests 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).

³ Portugal, Sweden and Turkey.

In effect, almost all Groups reported that their law provides for security interests that authorize the security taker to realize the security interests only in the event of default.

About 60% of the relevant Group Reports report that the security interest in the form of a pledge is the most relevant type of security interest for such a scenario.

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?

60% of the Groups confirmed that their law provides for security interests that authorize the security taker to use the underlying IPR. 35% of those jurisdictions stated that a security interest in the form of *usus fructus* rights is codified in their respective law⁴.

Of the 40% of the Groups who answered NO to this question, about half stated that such a transfer of *usus fructus* rights could at least be implemented contractually.

Only 4 Groups⁵ reported that such a right to use the encumbered IPR is conditional upon default of the security provider.

Additionally, approximately 10% of the Groups⁶ answering this question reported that such an agreement can be secured by way of a license between security taker and security provider, besides the security interest itself.

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.

More than 60% of the Groups reported that a pledge of some kind is the most commonly used security interest for IPRs.

Beyond that, there appears to be no commonly used alternative, with 12% of Groups reporting an assignment for IPR for security purpose is also used and another 12% indicating that the floating charge is the security interest of choice in their jurisdiction.

In Spain, the most commonly used security interest over IPRs is the *hipoteca mobiliaria* (very similar but not identical to a chattel mortgage). It offers a greater degree of legal security to the parties and, in particular, to the security taker because of its strict formal requirements regarding entry of the security interest into the national registry.

⁴ Belgium, Brazil, Germany, Independent Member from Bosnia/Herzegovina, the Netherlands, Slovenia, Spain and Switzerland.

⁵ Austria, Canada, Egypt and France.

⁶ Argentina, Australia, Austria, Hungary and Norway.

None of the reporting Groups mentioned that any specific type of security interests are exclusively used for certain types of IPRs. There appears to be a homogenous approach to assigning security interests over IPRs with the same type of security interests used for each variety of IPR in each respective jurisdiction.

Effects of security interest

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.

About two thirds of the Groups pointed out that the security provider is not generally restricted by law in their right to use their IPR after providing a security interest over that IPR. However, of those Groups, 12 Groups reported that such a restriction can be contractually stipulated.

Therefore, only one third of the Groups reported that no restriction can be put in place to limit the rights of the security provider regarding their individual IPR.

The German, Singaporean and Swiss Groups reported that in the case of a security interest in the form of a security assignment, the original owner of the IPR (the security provider) no longer has legal power over the IPR. In such case, the security provider generally grants the security taker a license to use the IPR.

Of the Groups answering YES to this question (approximately a third), in 4 jurisdictions⁷ the legal control of the security provider over the IPR is at least somewhat limited in that they must desist from any action which might lead to a decrease in value of the security interest.

Additionally, 3 Groups reported that their law requires the authorization of the security taker if the security provider wishes to grant a license regarding the IPR to a third party.

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

All reporting Groups stated that encumbered IPRs may theoretically be assigned to third parties by the security provider, barring the conditions laid out below in response to question 7) a).

About one third of the Groups reported however that such an assignment to a third party can be prohibited by contract between the security taker and the security provider.

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)?**

⁷Brazil, France, Hungary, Switzerland

In general, the responding Groups can be separated into three groups regarding the conditions under which an IPR may be assigned.

About 40% of the jurisdictions do not provide for any special requirements such as obtaining consent from the security taker or public notification or registration, unless such a condition has been previously contractually arranged.

In about 30% of the Groups, the law requires previous written authorization from the security taker. In Brazil the consent of the assignee of the IPR is also legally required.

In the remaining 30% of the Groups, an IPR may be assigned to a third party if the transfer of the IPR is properly filled and recorded in the respective registry.

Only the Spanish Group reports that written authorization of the security taker, as well as entry into the registry, are both required for assignation of an IPR to a third party.

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

All of the Groups confirmed that the IPR remains encumbered with the original security interests for the benefit of the security taker in the case where the encumbered IPR is assigned to a third party by the security provider.

However, about one third of the Groups stated that such an encumbrance only follows the IPR if the security right has been correctly recorded in the relevant registry before assignment of the IPR.

Additionally, all Groups that reported that a security interest over an IPR can be provided in the form of a floating charge also state that the IPR in question does not remain encumbered if that IPR is assigned to a third party in the course of regular operation of the company.

The Polish Group further explained that if the purchaser does not have knowledge, and with due diligence, could not have known about the existence of the pledge at the time of the handing over of the encumbered thing, the assignment of the IPR leads to the expiration of the pledge.

In Latvian law, subject to the written consent of the security taker, the pledge expires, unless the agreement provides otherwise.

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

About 40% of the Groups reported that the security taker has no such rights before default of the obligation.

50% of the Groups report that the security taker has more or less comprehensive rights before default. However, these various rights cover such a broad range of different activities that a detailed description is beyond the scope of this Summary Report. Potential rights include the right to lead infringement and/or annulment proceedings without involvement of the IPR proprietor, the right to receive information on the status of the pledged IPR, the right to intervene in proceedings brought by an IPR proprietor against an infringing party and

claim compensation of the pledgee's own damage. For further detail, refer to the respective Group Reports

2 of the Groups⁸ reported that the rights of the security taker before default are limited to such actions that uphold the legal validity of the IPR in question.

Brazilian law grants the security taker the same rights as to the owner of the IPR itself, including the right to initiate damages procedures if the security provider desists from doing so.

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

All of the reporting Groups stated that the security provider remains the responsible party for the maintenance and defence of the IPR. The Argentinian, Australian and Pakistani Groups stated that this question would be contractually determined under the relevant security agreement.

The German, Singaporean, Swiss and UK Groups reported that in case of a security interest in the form of a security assignment or a mortgage, the original owner of the IPR, the security provider, no longer has legal power over the IPR. In such case, the security taker is responsible for maintenance and defence of the IPR provided as collateral, unless the contract stipulates otherwise. The latter is the typical scenario according to the Swiss Group.

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.

Half the Groups confirmed that in their jurisdictions, expiration or revocation of the underlying IPR leads to an automatic and simultaneous lapse of the security right itself. However, only 1 Group, Estonia, stated this explicitly.

20% of the reporting Groups⁹ stated that this matter is not specifically addressed in their law. About 10% of the Groups¹⁰ reported that in case the underlying IPR is revoked or expires, the creditor has a claim against the debtor to be granted a new security interest in exchange.

Further, about 40% of the Groups reported that in case the underlying IPR expires or is revoked, the creditor potentially has a compensation claim against the security provider. The majority of those Groups stated that such a claim is given if the IPR expires or is revoked due to the negligence, bad faith or fault of the security provider, such as failure to pay the renewal fee for a trademark.

The Spanish Group reported that as long as the security interest is recorded at the Spanish Patent and Trademark Office, the IPR cannot be declared expired due to lack of payment

⁸ Argentina and Belgium.

⁹ Australia, Bulgaria, Egypt, Pakistan, Philippines, Singapore and the United Kingdom

¹⁰ France, Italy, Hungary, Portugal and the Republic of Korea

of the corresponding fees nor due to lack of renewal, without prior notice to the security taker. In this case, the security taker may make out the necessary payments or renewals in order to avoid the expiry of the IPR.

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?

About 85% of the Groups reported that these effects of security interests over IPR can be modified by contractual provisions between the parties before default. In contrast, only 6 Groups¹¹ stated that the existing law is binding for the parties involved.

The scope of the effects of security interests over IPRs which can be modified, however, vary greatly between the jurisdictions. While about one third of those Groups stated that the parties are generally very free in which effects they modify due to the freedom of contract, the majority of jurisdictions only allow for specific effects to be contractually modified. A more detailed breakdown is beyond the scope of this Summary Report. For further detail, refer to the respective Group Reports.

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?

Only about 15% of the Groups respond that their current law provides for conflicts of laws as to the availability and effect of security interests specifically over IPR portfolios containing foreign as well as national IPRs. The majority of those Groups are civil law jurisdictions and have regulations regarding IPRs in their respective Civil Codes.

An additional 25% of Groups stated that their respective law does not provide for such conflicts of laws at all.

The remaining 60% of the reporting Groups solve conflicts of laws regarding the availability and effect of security interests over IPR portfolios containing foreign as well as national IPRs via their general laws concerning such conflicts of laws:

- 45% of those Groups declare the law of the country where the respective IPR is registered or protected as applicable (*lex loci rei sitae* or *lex loci protectionis*).
- The remaining Groups apply various criteria to determine which jurisdiction should be applicable. The Slovenian Group, for example, reports that Slovenian law may apply if at least one of the involved parties is Slovenian.

¹¹ Argentina, Bulgaria, Egypt, Israel, Spain and Uruguay

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.

Around two thirds of the Groups are of the view that the law of the country of the IPR applies as to creation, perfection and effect of security interest.

The Swiss Group reported that the law of the security provider's location applies as to the creation of security interests, while the law of the state where the IPR is registered applies as to the perfection of security interests.

The Canadian, Israeli and US Groups stated that the law of the security provider's location applies.

Many Groups made a reservation that different rules would apply to the law applicable to the agreement itself, which to a large extent can be chosen by the parties.

Some of the answers provided in the Group Reports do not seem to address this question directly.

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

About two thirds of the Groups reported that a choice of law provision in a security interest agreement over IPRs cannot overrule the applicable law as to availability and effect. In contrast, one third of the Groups stated that such a choice of law provision can overrule the applicable law.

The Finnish Group pointed out that the validity ultra partes may be affected by Paragraph 3 of Article 3 of Rome I stipulating that if all other elements relevant to the situation at the time of the choice are located in a country other than the country whose law has been chosen, the choice of the parties should not prejudice the application of provisions of the law of that other country which cannot be derogated from by agreement.

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?

A vast majority of the Groups reported that in their jurisdiction it is possible to create a solely contractual regime for security interests over IPRs which is enforceable between the contracting parties. Only six Groups¹² stated that such a contractual regime is not possible. The UK Group reported that while UK law provides significant flexibility for the security provider and security taker to agree on the terms of their security arrangements, it is not possible to create a solely contractual regime for security interests over IPRs.

¹²Brasil, Japan, Paraguay, Republic of Korea, United Kingdom and Uruguay

About a third of the Groups which answered YES to this question, clarified that such a contract would have no effect vis-à-vis third parties, as contractual obligations are only binding to the parties involved.

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?

Most Groups are of the view that their current law regarding security interests over IPRs is sufficient to provide certainty and predictability to the parties. In particular Korean, Singaporean, Swiss and UK law seems to be well-established. Nevertheless, some of the Groups point out that there is little case law and that it would be useful to have comprehensive rules specifically applicable to IPRs.

Additionally, the Groups variously mention the following factors that detract from certainty in their jurisdictions:

- the recording template requires a statement of the secured amount and tax amount; this is problematic in global transactions because the value of the local IPR cannot be readily apportioned (Argentina);
- the interaction between registries (provincial and federal registries for security interests in Canada, registries for security interests and for IPR in France and in the UK);
- it is not clear whether unregistered security interests may also be applied to IPRs (Estonia);
- security interests over IPRs registered in foreign countries (Japan, Singapore);
- valuation of IPRs (Republic of Korea);
- overlapping rights of the security provider and the security taker (the UK);
- conflict of laws rules governing the effectiveness against third parties and priorities of different classes of creditors (Luxembourg).

In contrast, about 20% of the Groups stated that their law is not sufficient. These Groups point out that specific provisions in this area are minimal and there are significant loopholes or overlaps. The Paraguayan Group reports there is no possibility to use IPRs as security interests in Paraguay. The Turkish Group answered NO to the above question but reported that it is likely that a law on security interests will be introduced soon.

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)?**

More than 25% of the Groups (for example the UK and US Groups) stated that the parties may contractually agree on such limitations or extensions. Additionally, the Swiss Group is of the opinion that such flexibility is desirable and should not be limited unnecessarily by additional mandatory rules. Further, around 15% of the Groups (including the German, Dutch, UK and US Groups) state that in general their jurisdictions provide for an appropriate balance between the rights concerning security takers and security providers.

Around 35% of the Groups reported that there are no situations in which the rights of security providers should be limited or extended. Nevertheless, some of these Groups pointed out that there is a need to introduce such limitations and extensions. Additionally, the Dutch Group states that even though assignment is possible without involvement of the security taker, their rights are sufficiently safeguarded because any assignment of the encumbered IPR must be recorded in the relevant register for effect vis-à-vis third parties.

Most of the Groups report that there are situations in which the rights of security providers should be limited or extended. For example, the Polish Group stated that the assignment of an encumbered IPR is possible by the security provider without involvement of the security taker, however, it imposes a big risk of decrease in the IPR value on the security taker. Similarly, the German Group pointed out that the situation of the security taker is relatively weak in case of licences (in particular in situations of insolvency of the security provider).

The Groups provided various examples of situations in which the rights of security taker should be extended:

- the security taker should be at least notified in case of an IPR assignment (Belgian Group);
- the prior consent should be harmonised with regard to different IPRs (Estonian Group¹³);
- the prior consent of the security taker, currently limited to the transfers exceeding the scope of the regular activities of the security provider, could be required for all IPR transfers (Bulgarian Group);
- the security taker should have a right to defend, maintain and enforce the encumbered IPR in case of default of the security provider (Belgian and Hungarian Groups);
- in case of fixed charge, if there is a default of the security provider, the security taker should be allowed to seek remedies (Singaporean Group);
- the security taker should be able to supervise the security provider's disposal of the encumbered IPR (Chinese Group).

The Portuguese Group considers that in the following situation the rights of the security taker should be limited:

¹³ Currently the consent is required only in case of trademarks and designs, as opposed to patents.

- the security taker should not have a right to defend an encumbered IPR.
- 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)?**

Some of the Groups stated that the parties may contractually agree on such limitations or extensions, and in general, their jurisdictions provide for an appropriate balance between the rights between security takers and security providers.

About half of the Groups consider that there are no situations in which the rights of security providers should be limited or extended. Further, for example the Italian, Dutch and New Zealand Groups stated that it is the security provider that is authorized to dispose of existing licenses without involvement of the security taker.

About half of the Groups mentioned that there are situations in which the rights of security providers should be limited or extended. The Chinese and Singaporean Groups report the following example of a situation in which the rights of security providers should be extended:

- the security provider may claim damages if the security taker arbitrarily uses the IPR or acts in a manner that prejudices the IPRs.

The Groups variously report the following examples of situations in which the rights of security providers should be limited:

- default of the security provider (Bulgarian and Mexican Groups);
- the security provider should not be allowed to assign the IPR without the security taker's consent (Canadian and Spanish Group);
- the security provider should not be allowed to alter or negatively affect the IPR (Austrian Group);
- the ability of a security provider to renounce voluntarily a pledged patent without notifying the security taker should be limited (Swedish Group);
- the security taker should have the right to use the proceeds from the encumbered IPR to maintain, renew or defend that IPR (Belgian Group);
- the power of a security provider to control the company in a corporate restructuring should be limited, e.g. there should be a clear restriction on the assignment of encumbered IPRs and similar measures, except in connection with a transfer of business, as otherwise there is a risk that the value of the business may be compromised (Finnish Group¹⁴).

¹⁴ For further detail, refer to the Finnish Group Report.

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.

All but 5 Groups¹⁵ stated that there are aspects of their laws that could be improved.

In general, most of the Groups mentioned that clear substantive law governing the availability and effect of security interests over IPRs in the absence of contractual provisions, as well as the conflict of law rules, would promote transactions involving IPRs as collateral. For example, the UK Group is of the opinion that a system where all types of security interests are treated in the same way and are subject to the same rules of registration, priority and, in most cases, enforcement has significant advantages.

About one third of the Groups are of the view that the administrative procedures related to the registration of securities could be improved and simplified. Additionally, some of those Groups mentioned that the registration costs should be reduced. Most of those Groups mention that the security interests over different IPRs should be registered in one register.

About one third of the Groups are of the view that the enforcement should be more effective, and that this could be achieved by strengthening the position of the security taker. For example, the security taker should have a right to take action against any kind of infringer, to consent to subsequent assignment, to be notified about any challenges of the encumbered IPR or to dispose the IPR in case of default of the pledger.

Additionally, the French Group is of the opinion that the scope of court-ordered pledges of IPRs should be widened. The Finish Group stated that it should be possible to establish a separate pledge over an IPR in addition to an existing floating charge also covering the IPR. The Finish and Korean Groups mentioned that valuation rules should be established.

For further detail, please refer to the respective Group Reports.

III. Proposals for harmonisation

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

Most Groups are of the view that harmonization in this area is desirable. For example, the Finnish Group stated that a pledge over IPR should be available in an identical form and subject to the same prerequisites.

Only 6 Groups, namely the Groups from Japan, Latvia, Malta (Independent Member), Mexico, Paraguay and Sri Lanka are of the opinion that harmonization of laws concerning security interests over IPRs is not desirable. The Japanese Group states that such harmonization could have an unexpected negative effect and would not necessarily be beneficial in a practical sense.

Security system regarding IPRs

¹⁵ Australia, Egypt, Israel, Mexico and Spain.

20) Should there be specific provisions regulating security interests over IPRs (i.e. separate from security interests over tangible property) generally?

Around 80% of the Groups are of the view that there should be specific provisions regulating security interests over IPRs due to the specific nature of IPRs. Additionally:

- the Brazilian Group suggests that there is a need to revise administrative procedures e.g. by introducing shorter terms for transfer of ownership (chattel mortgage);
- the Canadian Group suggests that such provisions should also relate to cases where IPRs are used as collateral in a security agreement;
- the German Group suggests that either the traditional security law should be adapted to the practical needs of intangibles or specific rules for IPRs should be adopted;
- the Independent Member from Cyprus suggests that the protection of interests of both security takers and security providers should be well balanced;

In China and Korea there are already specific provisions regulating security interests over IPRs.

Around 20% of the Groups¹⁶ are of the opinion that there is no need for a specific regime regulating security interests over IPRs. In their opinion, general commercial law principles should be relied upon so as to have one single set of rules which regulates all the security interests.

However, the Danish Group states that there should not be specific provisions regulating security interests over IPRs, unless the perfection of security interest can be harmonized and effected by notification to the relevant registration authority where the particular IPR is registered. The Estonian Group argues that there is no need for specific provisions as long as there is a clear reference on the types of security interests applicable in the case of IPRs, and other aspects of IPRs as security are regulated. The Swiss Group recommends a digital notice-filing system for security interests in IPRs.

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

Most Groups essentially answer "Not Applicable" to this question, since they answered YES to question 20) above. Some of the Groups nonetheless reiterated the importance of applying general commercial law principles as the second best option.

The Groups that answered NO to question 20) are generally in favour of applying general commercial law principles.

- Only the Slovenian Group is of the opinion that the application of general commercial law principles is not necessary.

¹⁶ Australia, Austria, Denmark, Estonia, Japan, New Zealand, Norway, Slovenia and Sweden.

- The Japanese Group supports the application of general commercial law principles as long as the "general commercial law principles" in this question refers to principles of the existing commercial law of each country.

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

Around 60% of the Groups are of the view that at least pledges should be available as the minimum standard in all countries. The Egyptian and Latvian Groups take a contrary view, stating that there is no need for a minimum standard. The Singaporean Group is of the view that pledges and liens need not be part of a minimum standard. Alternatively, the Groups variously mention:

- one general system that applies to all types of security interests (4 Groups);
- registered security interests (3 Groups);
- standardized contract form (1 Group);

As an additional minimum standard, the Groups variously mention:

- security assignment (7 Groups¹⁷);
- right of usufruct (3 Groups);
- mortgages (4 Groups);
- floating charges (3 Groups);
- fixed and floating charges (2 Groups).

Additionally, the Finnish Group states that it would be practical to see all securities over IPRs in the same register.

Some of the answers provided in the Group Reports do not seem to address this question directly.

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?

About 80% of the Groups are of the opinion that the law should not be applied differently depending on the type of IPRs. The Groups that take this view generally state that there is no need or practical benefit, and insufficient differences between different IPRs, to apply the law differently. This also ensures that parties have a greater degree of freedom and legal security.

The remaining 8 Groups¹⁸ are of the opinion that the law should be applied differently. The Groups that take this view generally state that specifics of each type of IPR should be

¹⁷ Austria, Germany, Italy, Japan, Paraguay, Singapore and Switzerland.

¹⁸ Brazil, Bulgaria, Japan, Latvia, Norway, Paraguay, Philippines, Republic of Korea.

considered. For example, the Brazilian, Korean, Japanese and Norwegian Groups point out some trademark law particularities.

Some of the answers provided in the Group Reports do not seem to address this question directly.

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?

About one third of the Groups are of the view that the security provider should be restricted in their right to use their IPR after providing a security interest over that IPR only in the case where the security provider acts to the detriment of the value of the IPR.

About one quarter of the Groups are of the view that such restrictions should be subject to contractual agreement.

About one fifth of the Groups are of the opinion that licensing or disposing the IPR should be subject to the consent of the security taker (or at least notification to the security taker).

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

About 90% of the Groups are of the opinion that the security provider should be able to assign encumbered IPRs to third parties. However, most Groups taking this view make certain reservations – for example, such assignment should be possible, however, it should be subject to:

- the contractual agreement between the parties (12 Groups);
- the consent of the security taker (10 Groups);
- a condition that this does not affect the validity or value of security interest over the IPR (6 Groups);
- notification (2 Groups);
- assumption or no assumption of the security interest by the assignee (4 Groups; further, the German and Swiss Group state that assumption depends on the type of security);
- exceptions (1 Group) and restrictions on cross-border assignments (1 Group).

The remaining responses¹⁹ offer the opinion that the security provider should not be able to assign encumbered IPRs to third parties. Those that take this view generally state that such assignment is contrary to the legal nature of security interests. Further, the Singaporean

¹⁹ Independent Member from Bosnia/Herzegovina, Independent Member from Albania, Independent Member from Cyprus, Latvia, Singapore, Spain.

Group would allow such assignment only if the security is a floating charge that has not yet attached to the IPRs.

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

Some of the answers provided in the Group Reports do not seem to address this question directly.

There are however some useful suggestions. For example, the security taker should be entitled to:

- damages (9 Groups);
- injunctions against infringers (10 Groups; however, the Finnish Group states that this should be subject to the security provider's consent);
- license fees (8 Groups);
- maintain the IPR (5 Groups);
- pay renewal fees or at least to monitor the payments (2 Groups);
- commence opposition proceedings (2 Groups);
- The French Group lists different examples of situations in which the consent of the security taker should be required, for example, in the event of the assignment of the IPR, withdrawal of the IPR application, limitation of the scope of a patent *etc.* for further detail, refer to the French Group Report.

In contrast, 5 Groups are of the opinion that the security taker should have no rights. 4 other Groups are of the opinion that the security taker should not be entitled to license fees or damages. However, the German Group is of the opinion that the security taker should have standing to sue infringers, but any damages should be payable only to the owner, whereas the security taker should only be able to acquire a security in the damages. Similarly, with regard to license fees, the security taker should not have any rights to the proceeds realised from the exercise of the IPR, but it may be desirable that they acquire a security in the fees paid to the security provider.

More than half of the Groups state that the rights of the security taker should be subject to contractual agreement. Additionally, it could depend on the type of security interests (for further detail, refer to the Swiss Group Report).

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

Most Groups are of the view that the security provider should be responsible for maintenance and defence of the IPR provided as collateral.

About 40% of the Groups are of the opinion that this should be a matter for agreement between the parties.

Additionally, about 35% of the Groups state that under certain circumstances (such as absence of action by the security provider) the security taker should be authorized to act at the cost of the security provider. Further, the Korean and Swiss Groups state that in such case the security taker should be able to claim damages *from the security provider*. Additionally, the Danish, German and Norwegian Groups state that the security taker should be notified about any challenges of the encumbered IPR.

About one eighth of the Groups point out that the responsibility should depend on the type of security, namely, on whether the ownership is transferred.

The Paraguayan Group and the Independent Member from Bosnia/Herzegovina are of the opinion that both the security provider and the security taker should be responsible, while the Turkish Group is of the opinion that the security taker should be responsible.

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)?

Almost 40% of the Groups state that if the underlying IPR expires or is revoked, the security right should lapse simultaneously.

Almost 30% of the Groups state that all or some legal consequences should vary depending on the reason for the expiration or revocation of the IPR, namely, whether there was a default by the security provider (for further detail, refer for example to the French Group Report), or depending on the type of the security interest (lapses in case of fixed charge, does not lapse in case of floating charge).

More than 25% of the Groups are of the opinion that all or some legal consequences should be subject to contractual agreement.

Almost 25% of the Groups state that if the underlying IPR expires or is revoked, the creditor should have a compensation claim against security provider. Alternatively, the creditor should be provided with a new security or entitled to damages.

3 Groups mention that the security taker should be able to prevent the expiration or revocation of the IPR (for further detail, refer to the Belgium or Finnish Group Reports).

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

Most Groups note that, pursuant to the general rule of freedom of contracts, and in order to ensure the effectiveness of security interests, it should be possible to modify by contractual provisions the effects of the security interests over IPRs before default. About 40% of the Groups note that mandatory rules should prevail over contractual provisions, such as insolvency regulations or public order clauses. Further, it should not be possible to prevent contractually the security right from lapsing simultaneously. Nevertheless, the Dutch Group is of the opinion that it should be possible to agree contractually on the extent of the compensation claim the security taker has against security provider if the security right lapses simultaneously with the expiration or revocation of the underlying IPR.

Only 6 Groups²⁰ responded that such contractual modifications should not be possible since it would lead to a legal uncertainty and improper balancing of interests of both security takers and providers.

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?

Almost 60% of the Groups are of the view that the law of the country in which the IPR is registered should apply as to the availability and the effects of security interests where a foreign IPR is provided as collateral. Due to the territorial nature of IPRs, this would provide more certainty, enhance enforcement and create less formal and procedural difficulties. For further detail, refer for example to the German Group Report. Nevertheless, the Belgian and Danish Groups point out that it may also create difficulties with regard to a portfolio containing IPRs which are subject to various laws. Therefore, for example, the Dutch and French Groups state that harmonisation with this regard is particularly desirable.

According to the Polish and Swiss Groups²¹, the choice of law applicable to the creation, effectiveness against third parties and priority of a security right in an IPR should be based on a *lex protectionis* approach, while the law applicable to the enforcement of a security right should be the law of the state of the security provider. On the contrary, the Danish Group does not consider that such principle would be appropriate as this might lead to undesirable effects such as forum shopping.

The Canadian and Spanish Groups are of the view that the law according to which the security interests have been constituted should be applied.

Additionally, the Canadian, Luxembourg, Philippian and Swiss Groups mention that the parties should be free to choose a different governing law.

Some of the answers provided in the Group Reports do not seem to address this question directly.

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

Most Groups are of the view that a choice of law provision in a security interest agreement over IPRs should not overrule the applicable law. For example, several Groups consider that such choice should be available only with regard to the contractual transaction and not with regard to availability and effects. The Argentinian Group considers that it should be possible with regard to the pre-default effects (as opposed to the post-default effects).

About one fifth of the Groups state that a choice of law provision should overrule the applicable law. Among the grounds, therefore the Groups mention the reduction of

²⁰ Bulgaria, Independent Member from Bosnia/Herzegovina, Israel, Paraguay, Spain, Uruguay.

²¹ Similarly also the Luxembourg Group.

transaction costs and the increase of effectiveness. Nevertheless, some Groups (for example, the Swiss Group) state that there should be some limitations to this freedom.

Some Groups (such as the Austrian, French and Japanese Groups) consider that such provision should overrule the law applicable to the contract itself and not the law applicable to the availability and effects of the security interest.

Additional considerations and proposals

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

The Groups provide various useful suggestions. For example:

- the Australian Group proposes that harmonized laws should follow the Australian model, in accordance to which the general rules of the Personal Property Securities Act applies to all types of property, including IPRs;
- the Belgian Group proposes that in any case the choice of law clauses should not overrule the law of the country for which security interests is claimed;
- the Chinese Group proposes harmonization of the criteria for assessing the secured IPRs and the review on the qualification of the assessing authorities;
- the Norwegian Group proposes standards on the relationship between security rights and other voluntarily created or granted rights, such as licences;
- the Portuguese and Swedish Groups propose harmonization of the laws for security interests over unregistered IPRs (including pending IPR applications);

Several Groups address the issue of harmonization of the formal requirements for an effective securitization. The German Group also proposes harmonization of the effects following such registration. The Bulgarian Group proposes creation of public national registers for all types of security interests over IPRs, whereas the Danish Group proposes that the relevant registration authority (where the particular IPR is registered) could perform such function. Additionally, the Japanese Group proposes a one-stop service for international registration of security interests created over IPRs.

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

The Belgian Group comments that also the rules on interactions between specific IPRs registries and general security registers should be harmonised.

The Chinese Group is of the opinion that there should be provisions regulating security interests over foreign IPRs.

The Finnish Group takes the view that it is also important that insolvency laws ensure identical treatment of different assets in cross-border situations.

The Portuguese Groups considers that where a licensed IPR is subject to security interest, the licensee(s) should be notified in writing of the creation of a security interest.

The Singaporean Group comments that the setting of basic standards, methods and processes for IPRs valuation should also be explored.

Industry sector views included in these proposals for harmonisation

The following consultation with industry was reported:

- Financial services, securities and appraisals (China)
- Pharmaceuticals, automotive and telecommunications (France)

IV. Conclusions

General

There is ample support for the proposition that the harmonization of laws concerning security interests over IPRs is desirable. Most of the Groups agree on this. Even though most of the Groups are of the view that their current law regarding security interests over IPRs is sufficient to provide certainty and predictability to the parties, almost all Groups state that there are aspects of their laws that could be improved.

There is also general support for specific provisions regulating security interests over IPRs. Further, clear substantive law governing the availability and effect of security interests over IPRs in the absence of contractual provisions, as well as the conflict of law rules, would promote transactions involving IPRs as collateral.

Substantive law

As to the types of security interests available, there is ample support for including pledge and security assignments as the types of security interests that should be available as minimum standard in all countries.

There is also general support for specific provisions regulating situations in which the rights of both security provider and security taker should be limited or extended. As to the rights of security providers, there is general support for granting the security provider a right to assign encumbered IPRs to third parties. Further, there is some support (about one third of the Groups) for restricting the security provider in their right to use their IPR after providing a security interest over that IPR in case the security provider acts to the detriment of the IPRs value. As regards to the rights of security takers before default, there is little support for granting the security taker certain rights (entitlement to damages, injunctions against infringers, or license fees). Nevertheless, the Groups generally support the proposition that it is the security provider who should be responsible for maintenance and defence of the IPR provided as collateral.

Applicable law

As to the law applicable to the availability and the effects of security interests where a foreign IPR is provided as collateral, more than half of the Groups support the view that it should be the law of the country in which the IPR is registered.

As to the conflict of law rules, the Groups broadly support solving conflicts of laws regarding the availability and effect of security interests over IPR portfolios containing foreign as well as national IPRs via their general laws concerning such conflicts of laws. Further, there is also broad support for clarifying that a choice of law provision in a security interest agreement over IPRs should not overrule the applicable law as to availability and effect.

Contractual modifications

There is ample support for the proposition that the effects of security interests over IPR can be modified by contractual provisions between the parties before default. Nevertheless, there is also reasonable support (about 40% of the Groups) for the proposition that some mandatory rules should prevail over contractual provisions.

Other issues

There is general support for the proposition that the law should not be applied differently depending on the type of IPRs.

About half the Groups support the proposition that expiration or revocation of the underlying IPR should lead to an automatic simultaneous lapse of the security right itself. However, in such case, the view is that the security taker should be granted certain rights in order to prevent such lapse (e.g. the security taker should be able to pay a renewal fee in the event of the security provider's default).