



Submission date: 5th May 2016

2016 - Study Question (General)

by Sarah MATHESON, Reporter General
John OSHA and Anne Marie VERSCHUUR, Deputy Reporters General
Yusuke INUI, Ari LAAKKONEN and Ralph NACK, Assistants to the Reporter General
Security interests over intellectual property

Responsible Reporter: Ralph NACK

National/Regional Group	Australia
Contributors name(s)	Grant FISHER, Bruce WHITTAKER, Chris PATTEN and Kane WISHART
e-Mail contact	c.harris@watermark.com.au
Date	05-05-2016

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:

Yes. Security interests over IPRs are registrable under, and protected by, the personal property securities regime governed under the *Personal Property Securities Act 2009* (Cth)[1][#_ftn1] (the **PPSA**), a federal statute.

[1][#_ftnref1] A copy of the legislation may be accessed online via http://www.austlii.edu.au/au/legis/cth/consol_act/ppsa2009356/[http://www.austlii.edu.au/au/legis/cth/consol_act/ppsa2009356/]

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)?

no

Please explain:

Australia does not have a separate or distinct *sui generis* regime for the creation of security interests over patents or IP generally (cf recordal). The PPSA regulates security interests over almost all forms of property other than land.

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:

It is a subject of continuing debate among Australian practitioners as to whether the passing of the PPSA, in effect, abolished the common law concepts of a 'mortgage' or 'charge', replacing them with a wholly statutory form of security. Ultimately, however, the outcome is largely the same either way, as the rules in the PPSA will apply however the security interest is characterised.

For example, where previously, Australian law provided for security interests such as:

1. a legal mortgage (with equitable rights of redemption);
2. an equitable mortgage (with no legal title passing); or
3. a charge (with no transfer); now, under the PPSA, all that is established is a "security interest" over the property. The rules for the creation of that security interest are governed by the PPSA.

(a) It is still possible to establish a technical mortgage, in the sense the parties may structure the terms of any agreement as they wish, but the treatment of the security interest generated is the same. It is possible to transfer ownership for a variety of purposes, if agreed to by the parties, under the rules of the PPSA.

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:

Subject to chapter 4 of the PPSA, there is significant contractual leeway afforded the parties under the PPSA. The parties are at liberty to structure the security interest so as to give effect to the intention of the parties as regards how to deal with the underlying property in circumstances of, for example, default.

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:

As above, there is significant contractual leeway afforded the parties as to what terms they wish to include in any given security agreement. There are very few limitations as under the PPSA. If parties were to agree to keep and hold current any licences to an IPR (for example), they need only explicitly deal with this in the relevant security agreement.

- 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.

See our response to question 3(a).

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:

No. Nothing under the PPSA, in and of itself, limits the rights of the parties beyond what is governed by contract (i.e. the terms of the security agreement between the parties).

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

yes

Please explain:

- 7) If yes:

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

There is nothing in the PPSA which conditions an assignment.

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

yes

Please explain:

As a general rule, if an IPR is assigned, the security travels with it. However, there are some important exceptions:

- a party may consent to the assignment free of the security interest – as this can be express or

implied, care ought to be taken in preparing the terms of the IPR and security agreement documentation;

- if the selling party is in the business of selling IPRs, then the buyer may take the IPR free of the encumbered security; and
- to have maximum effect a security interest needs to be protected by a registration on the PPS register. In particular, it is advisable to include the relevant serial number (or patent number, etc) in the registration, as there is otherwise a greater risk that the security interest may not travel with the IPR when transferred.

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

There is no bespoke regime dealing with the general rights of security holders under the PPSA, aside from the contractual leeway afforded the parties to structure those rights as under the security agreement.

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

This is a matter which would be contractually determined under the relevant security agreement.

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.

The PPSA does not explicitly provide for any such consequences beyond the scope of the security agreement.

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:

Yes. How the IPR is dealt with is to be determined as under the relevant security agreement, the terms of which are decided between the contracting parties.

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:

Yes. The PPSA includes conflict of laws provisions in Part 7.2 of the legislation (being sections 233 to 241).

13) Which national law applies as to creation, perfection and effect of security interests over foreign IPRs? For example, where a US patent is provided as collateral in respect of a financial transaction in Europe.

The operation of the conflict of law provisions is a multi-tiered process. Firstly, section 6(2) of the PPSA defines "connection with Australia". For example, for the PPSA to apply to a security interest over an IPR:

- that IPR must either be established by an Australian law, or
- the grantor must be an Australian entity. This section operates as a gateway clause to determine if the PPSA is enlivened at all. The next step, is to determine the operation of any foreign law to the transaction, which is governed under part 7.2 of the legislation. Section 239(3) establishes that the governing law to be applied to the creation of a security interest over IPRs is determined by reference to the location of the grantor at the time the security interest attaches and that the perfection (and the implications of perfection) are determined by the location of the grantor. As an exception to this, where the matter being determined is whether a successor in title to the grantor's interest in the property or licence takes it free of a security interest, or whether that security interest is valid against a transferee of the property or licence, the governing law is that of the jurisdiction in which the property or licence itself is granted.

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:

No. This is one of the few instances where the PPSA rules cannot be amended contractually by the parties to a given security 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?

yes

Please explain:

The PPSA will apply if what you're doing is in substance the formation of a security interest, no matter how the parties seek to define the regime contractually. The key question is whether an interest in the IPR is provided for by a transaction that, in substance, secures payment or performance of an obligation (without regard to the form of the transaction or the identity of the person who has title to the IPR).

However, as noted above, there are very few limitations in the legislation as to what the contracting parties may agree to under a security agreement.

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:

There was a recently conducted review of the operation of the PPSA by the Australian Government, which included extensive consultation with and input from industry. On the whole, Australian businesses appear satisfied with the regime as it applies to IPRs, and there were no substantive calls

for extensive or wholesale changes to the PPSA regime in that regard.

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

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

yes

Please explain:

The above cited example is already possible under the PPSA, if provided for contractually by the parties to a security agreement. This does not appear to be a contentious area for the purposes of Australian businesses operating under the PPSA regime.

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:

There appears to be broad compliance with, and approval of, the broad contractual leeway afforded to parties under the PPSA regime, by Australian industry stakeholders. Based on the recent Australian Government review of the PPSA, in which Australian industry was extensively consulted, stakeholders appear to be generally happy with the balance under Australian law as between security takers and providers as the PPSA applies to IPRs.

- 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:

We do not consider there to be any significant problem with the operation of the PPSA regime which would warrant legislative intervention at this time.

We note that, in the *Supplement on Security Rights in Intellectual Property* to the *UNCITRAL Legislative Guide*, published by UNCITRAL, much emphasis was placed on the centrality of contract law, and the rights of parties to a security agreement in defining the rights of the parties free of legislative restriction. In this sense, the Australian PPSA regime, with its broad reliance on the text of a given security agreement to govern the handling and disposal of security interests at law, can be considered an exemplar of the type of system proposed under the UNCITRAL published model.

III. Proposals for harmonisation

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

yes

If yes, please respond to the following questions without regard to your Group's current law. Even if no, please address the following questions to the extent your Group considers your Group's laws could be improved.

Security system regarding IPRs

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

no

Please explain:

There does not appear to be any need for a *sui generis* regime regulating security interests over IPRs in Australia. On the whole, and in our experience, Australian industry is supportive of a single, consistent set of rules which regulates all security interests, irrespective of the underlying interest or property.

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

no

Please explain:

In essence, this is what the PPSA already does.

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

Consistent with the principles set out by UNCITRAL, Australia's PPSA regime provides for standardised rules which apply across all security interests. As discussed above, the distinction between separate "types" of security interests (e.g. mortgages, charges) is now largely academic in the Australian context.

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

no

Please explain:

As noted above, there does not appear to be any need for a *sui generis* regime regulating security interests over IPRs in Australia. In practical terms, as the contracting parties are at liberty to determine the appropriate structure of any given security agreement, the PPSA regime already provides for different terms to be applied to best tailor the operation of a security in respect of the underlying IPR.

Effect of security interests

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

yes

Please explain:

Freedom to contract takes precedence in Australia for the purposes of the PPSA regime. In our view, the owner should by rights be able to use their IPR, unless they voluntarily relinquish part or all of those

rights under the security agreement.

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

yes

Please explain:

Yes, but subject to the kinds of exceptions noted in question 7 above (e.g. where a provider's business is the sale of IPRs, the default position ought be that those IPRs are sold free of said encumbrance).

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

As determined contractually between the parties to the security agreement.

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

yes

Please explain:

Only if the parties so agree in the relevant security agreement.

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)?

As determined contractually between the parties to the security agreement.

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

yes

Please explain:

This is essentially the case already under the PPSA, for the purposes of Australian law.

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?

Australian industry appears broadly satisfied with the conflict of laws regime established under Part 7.2 of the PPSA. Insofar as the rules governing conflict of laws are clear, parties are able to consider the operation of those laws prior to entering into a security agreement with an Australian counterparty which deals with a foreign IPR, or in relation to a transaction involving Australian IPR. Consistency and predictability of law is more important, at least to Australian industry stakeholders, than whether a given national law is to take precedence in a given circumstance.

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. As noted above, consistency and predictability of the operation of law is paramount to Australian stakeholders. It is important that the conflict of law provisions operate consistently across all security agreements, to provide certainty to third parties as to what the governing law may be (noting that, privity of contract may otherwise prevent third parties from being able to identify the governing law over a security interest if the legislative presumption could be overruled by way of contract).

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.

Australia has enjoyed broad consensus among industry as to the operation of, and support for the maintenance of, the PPSA regime as it applies to IPRs. As the PPSA is based on the regimes adopted by Canada and New Zealand, which in turn draw on principles established by Article 9 in the USA, adoption of similar schemes may be an appropriate harmonisation vehicle for security laws internationally.

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

See above.

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

No industry sector views are included.

Summary

In Australia security interests over IPRs are registrable under, and protected by, the personal property securities regime governed under the *Personal Property Securities Act 2009* (Cth) (the **PPSA**), a federal statute. On the whole Australian industry is supportive of a single, consistent set of rules which regulates all security interests, irrespective of the underlying interest or property. There does not appear to be any need for a *sui generis* regime regulating security interests over IPRs in Australia. In the *Supplement on Security Rights in Intellectual Property* to the *UNCITRAL Legislative Guide* much emphasis was placed on the centrality of contract law, and the rights of parties to a security agreement in defining the rights of the parties free of legislative restriction. In this sense, the Australian PPSA regime, with its broad reliance on the text of a given security agreement to govern the handling and disposal of security interests at law, can be considered an exemplar of this model. Australia has enjoyed broad consensus among industry as to the operation of, and support for the maintenance of, the PPSA regime as it applies to IPRs. As the PPSA is based on the regimes adopted by Canada and New Zealand, which in turn draw on principles established by Article 9 (Secured Transactions) of the *Uniform Commercial Code* in the USA, adoption of similar schemes may be an appropriate harmonisation vehicle for security laws internationally.