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2016 – Study Question (General)

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Security interests over intellectual property

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I. Current law and practice

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

Availability of security rights

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

yes

Please explain:

Bulgarian law provides for the possibility of creating two types of security interests over patents, trademarks and registered designs – 1) registered pledge which is a contract between security provider and security taker and 2) security admitted by the court in case of future or pending court claims.

The court security consists of either 1) depriving the IPRs holder/licensee of their rights to use the IPRs subject to security measures or 2) depriving the IPRs holder/exclusive licensee of the right to dispose of the IPRs. The purpose of the court security is to preserve certain property for recovery of creditor's claim in case it is upheld by the court.

In the answers of questions 7-33 below we will focus on the registered pledge over IPRs based on a contract between security provider and security taker.

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:

Security interests over trademarks are defined by the Marks and Geographical Indications Act (specific act, which only defines the type of the security interest) and the Registered Pledges Act (general commercial law act, which regulates the registration and enforcement procedures applicable to registered pledges in general).

Security interests over registered designs are defined by the Industrial Design Act (specific act, which only defines the type of the security interest) and the Registered Pledges Act (general commercial law act, which regulates the registration and enforcement procedures applicable to registered pledges in general).

Security interests over patents are defined by the Patents and Utility Models Registration Act (specific act, which only defines the type of the security interest) and the Registered Pledges Act (general commercial law act, which regulates the registration and enforcement procedures applicable to registered pledges in general).

Court securities over all of the above IPRs are regulated by the specific act for each type of IPR and the Civil Procedure Code, which is a general procedural act that regulates the court and enforcement procedures.

- 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:

The pledge creditor has the right to be indemnified by the price of the pledged property or by the compensation received for it, as well as from the amount received from the expropriation of the pledged property. The IPR holder and security provider has the right to keep and use the pledged property, including to dispose of the pledged IPR.

- 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:

However, if the IPR holder does not fulfill his obligations under the pledge contract (in the event of default) the pledge creditor can require execution ahead of term as well as to be indemnified by the pledged property.

- 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?

no

Please explain:

No, the pledged IPR is used by the security provider.

In case of court security the security creditor might require from the court either to restrict the use of the IPR or to prohibit the disposal with the latter.

- 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.

According to the local regulations registered pledges and court security are applicable to all IPRs subject to the present Study.

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:

The security provider under registered pledge is not restricted in their right to use the IPRs after providing the security interest. The security provider keeps and uses the IPR while the registered pledge is in place. The security provider is entitled to use in their business activity the pledged property according to its purposes, including to license and dispose of their property. Moreover, if a third party acquires rights on the pledged property through a contract signed by the security provider within the scope of their usual business activity and such acquisition is incompatible with the pledge, the security interest shall lapse.

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

yes

Please explain:

Encumbered IPRs subject to registered pledge may be assigned to third parties by the security provider.

IPRs subject to court security cannot be assigned to third parties.

- 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)?

When the transaction with IPRs falls outside the scope of the usual business activity of the security provider, the consent of the security taker is required. When the disposal is within the scope of the usual business activity of the security provider, consent from the security taker is not necessary. Furthermore, the security provider has the obligation to notify the security taker in writing for each legal and factual action that results in transfer or creating of third party rights over the pledged IPR. The security provider is also obliged to notify any third party that acquires rights over the pledged IPR about the rights of the security taker.

In case the security taker starts enforcement of its security rights over the pledged IPR, it has an obligation to notify the security provider and to register the enforcement at the register. After registration of the enforcement the security provider is no longer entitled to dispose with the pledged IPR – only the security taker may dispose with the pledged IPR.

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

yes

Please explain:

After registration of the pledge over the IPR in the name of the security taker (at the respective register kept by the Bulgarian Patent Office), the IPR remains encumbered with the original security interest to the benefit of the security taker. Moreover, the party that acquired the pledged IPR is obligated to inform the security taker for the rights it has acquired.

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

The security taker has the right to:

- receive information (available for the security provider) on the status of the pledged IPR from public authorities and third parties that hold, store or keep record of the pledged IPR;
- receive the amount obtained for the expropriated pledged IPR in case of lapse of the pledge;
- be notified in writing of all legal and factual actions that result in transfer or creating of third party rights over the pledged IPR, and to provide the security taker with copies of the documents certifying the transfer or creation of such rights; in such case the security provider is obliged to immediately request entering of the changes in the respective register;
- receive profits from the insurance over the pledged IPR made by the security provider;
- be notified about any damage or harm to the pledged IPR;
- be notified about all (initiated) proceedings concerning the pledged IPR;
- be secured in case of perishing the pledged IPR. In such case the security provider is obliged to sell the pledged IPR and deposit the received amount in a bank in order to secure the security taker;
- checking the current status of the pledged IPR;
- notify third parties that have acquired rights on the pledged IPR regarding the rights of the security taker.

In case of a court security, the security taker does not enjoy any benefits from the security. It will only be able to enforce the security and sell the IPR provided that the court claim of the security taker that was secured through the security interest over the IPR was upheld by the court with a final court decision.

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

The security provider is responsible for maintenance and defence of the IPR provided as collateral or in case of court security.

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.

No explicit regulation exists. Based on the fact that the security provider is obliged to maintain and keep the IPR, if the latter expires without renewal (on condition that the IPR is subject to renewal), the security shall be terminated and the security taker should be able to claim damages. If the IPR expires because it was no longer subject to renewal, then the security will be terminated and the parties should agree on the consequences. The security taker could hardly prove any fault on the side of the security provider in the last case. In case of revocation of the pledged IPR, the pledge shall be terminated and depending on the case the security taker might be able to claim damages (if there is any fault on the part of the security provider).

In case the expiry or the revocation of the IPR is covered by the insurance provided by the security provider, the security taker might also be able to receive an insurance compensation.

In addition, such expiration or revocation may affect the main contractual relationship between the parties. The premature termination of the pledge might result in an event of default for the security provider, so that the main obligation of the security provider may become immediately due.

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?

no

Please explain:

All legal provisions concerning the effects of security interest over IPR are imperative and cannot be modified by contractual provisions between the parties.

However, considering the lack of any explicit regulation with regard to question 10, we believe that the parties may agree on the consequences in case of expiry or revocation of the IPR, including by agreeing on an additional security, payment of monetary compensation, etc.

Applicable law

12) Does your Group's current law provide for conflicts of laws as to the availability and effect of security interests over IPR portfolios containing foreign as well as national IPRs?

no

Please explain:

Specific provisions are not available. The general conflict of laws regarding IPRs can be found in the Private International Law Code. In principle creation, content, transfer and termination of IPRs are governed by the law of the country which granted the right. Furthermore, contracts for transfer of IPR or for granting the use of IPR are governed by the choice of law or the law of the country which has closest connection with the contract.

- 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.

If a US patent is provided as collateral in respect of a financial transaction in Europe, the US law as the law of the country where the patent was registered shall be applicable regarding validity, perfection and effects of any security rights over this US patent.

- 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:

Bulgarian rules related to registration, availability and effect of security interest over IPR with effect in Bulgaria are imperative and they cannot be overruled by the applicable law chosen by the parties. However, all aspects for which no explicit regulations exists could be agreed between the parties subject to the requirement of the Private International Law Code that the choice of foreign law should not affect the application of the mandatory rules of Bulgaria which cannot be avoided by exercising the freedom of contracting.

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:

Two contracting parties are free to agree on any mechanism that guarantees and secures their contractual obligations. Such an agreement, however, has only a contractual nature – it could have effect only in the relations between the security taker and the security provider and could not be enforceable against third parties and cannot be registered in the public registers. Therefore, a security interest over IPRs based solely on a contract between the parties cannot be enforced against third parties.

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

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

yes

Please explain:

The provisions of the Registered Pledges Act and of the special acts are more or less clear and they provide certainty and predictability to the parties. However, the general rules of the Registered Pledges Act are applied accordingly and it would be more effective if there are special rules applicable to IPR pledges only.

- 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 security provider is authorized to dispose of the pledged property. He is obliged to inform in writing the security taker for all legal and actual activities leading to transfer or assignment of rights to third parties over the pledged IPR. However, prior consent of the security taker is only required in case of IPR transfers that do not fall within the scope of the regular activities of the security provider. Prior consent of the security taker for all IPR transfers (when the IPR is subject to a registered pledge) might strengthen the protection of the security taker.

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

yes

Please explain:

In case of default of the security provider the rights of the security takers should be extended.

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

yes

Please explain:

A simplified registration procedure before the registry. There are no other changes that could promote transactions involving IPRs as collateral.

III. Proposals for harmonisation

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

yes

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

Security system regarding IPRs

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

yes

Please explain:

There should be specific provisions regulating security interests over IPRs.

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

no

Please explain:

The general commercial law principles currently apply to IPRs but they cannot always respond to the specifics of the IPR.

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

Registered pledges should be available as a 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?

yes

Please explain:

Same principles should apply to all IPRs but the specifics of each type of IPR should be also considered.

Effect of security interests

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

no

Please explain:

The security provider should not be restricted in their right to use their IPR after providing a security interest over that IPR. The security provider could be obliged to require a prior consent of the security taker for disposals with the IPR in order to guarantee security taker's rights.

The interest of third parties that eventually may conclude license agreement for the pledged IPR is protected through the registration of the security interest in a public register accessible for all third parties.

Moreover, if the security provider continues the use of their pledged IPR, the IPR eventually may increase its value or the security provider may obtain profits from such use. In both cases the result is to the benefit of the security taker.

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

no

Please explain:

The security provider should not be restricted in their right to dispose with their IPR after providing a security interest over that IPR. Prior consent of the security taker for all transfers might strengthen the protection of the security taker.

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

The security taker should be able to take appropriate actions to protect the pledged IPR if the security provider does not act at all. The security taker should also have the right to a preferential satisfaction in case of enforcement of the pledged IPR compared to other creditors of the security provider.

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)?

Security right lapses simultaneously but security taker is entitled to a compensation by the security provider.

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

no

Please explain:

No, it should not be possible to modify these effects over IPRs by contractual provision. If the parties are free to modify such effects by contractual provisions, these would lead to a legal uncertainty and lack of predictability.

Applicable law

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

The law of the country where the respective IPR has been registered/where protection to the IPR has been granted should be applicable to the availability and the effects of security interests. This provides legal certainty and predictability.

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

yes

Please explain:

The choice of law provision regarding the security interest agreement over IPRs should not be able to overrule the applicable law. Although the freedom of contract should be respected in private legal

relations, the law that should apply to IPRs provided as security is the law of the country where the IPRs are registered/where protection is granted. This country has the closest connection with the respective IPR and in that respect should apply to the procedure regarding the enforcement of security rights over the IPR. The parties should not be allowed to avoid the mandatory rules and consequences of that country's law by agreeing on foreign law.

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.

It is recommendable for each country to create a public national register for all types of security interests over IPRs. Such a solution would enable third parties to check the status of the IPRs and this will increase the legal certainty for all parties. The security interest must be registered under a simplified procedure (e.g. ex officio after receiving a notification from the security register).

Another recommendation is to unify the conflict-of-laws regarding the applicable law to securities. Allowing the parties to choose the applicable law regarding security interests in some jurisdictions and prohibiting such contractual freedom in other impairs the legal certainty. Possible solution may be to adopt a unified conflict-of-laws rules that connect the security interests over the IPRs with the law of the country where the respective IPR has been registered/protection has been granted.

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

N/A

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

Summary