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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:

Finnish law* recognizes two main forms of security interests over IPRs:

- Pledge over IPR; and
- Floating charge over assets of an enterprise, including its IPR assets.

There are also other forms of security interests available in Finland, such as retention of title, pledge over receivables based on IPRs (e.g. royalty profits from IPR), repurchase arrangements, and equitable mortgage (in Finnish: *vakuusluovutus*), which are however mostly not addressed in this report. This approach has been chosen because neither retention of title, pledge over receivables nor repurchase arrangements are actual security interest over IPRs, and equitable mortgage arrangements are rarely seen in the Finnish commercial practice. This being said, also these forms of security interest are addressed in this report to the extent appropriate to provide an adequate picture of the relevant Finnish legal environment.

* Please note that this report by the Finnish group focuses on national Finnish law and national Finnish security interests only. Due to the heavily national nature of this research, intellectual property rights

(**IPR**) based on European Union Law, such as the European Union Trademark, or any pledge over them, are not discussed in this report, regardless of the fact that such instruments are naturally also part of the Finnish legal environment and system. Hyperlinks to the unofficial English translations of the relevant Finnish legislation have been included in this report, if available.

**"Equitable mortgage", as used in this report, refers to a contractual arrangement in which property is transferred to a creditor for the purpose of security, while it remains in the possession of the debtor and there is also repurchase option for the security provide for the agreed price. In equitable mortgage, the intention of the parties is not to truly transfer the ownership of the subject matter of the sale to the buyer, but rather to provide it as a temporary security for credit. Equitable mortgage should be separated from transfers in which the title is not assigned for the purposes of security and the assignment is duly perfected, e.g. by handing over the possession to the buyer (or, in case of IPRs, see answer to Q3a).

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:

While a pledge over trademarks, patents, utility models and registered designs is referred to in the IPR specific legislation, namely in the Finnish Patents Act[http://finlex.fi/fi/laki/kaannokset/1967/en19670550.pdf] , (550/1967), the Finnish Trademarks Act[http://finlex.fi/fi/laki/kaannokset/1964/en19640007.pdf] (7/1964) the Finnish Act on Utility Model Rights[http://finlex.fi/fi/laki/kaannokset/1991/en19910800.pdf] , (800/1991), and the Finnish Registered Designs Act[https://www.finlex.fi/fi/laki/kaannokset/1971/en19710221.pdf] (221/1971), the content of such pledge, such as its realization, derives mainly from general commercial law provisions and principles regulating pledges. The general commercial law provisions concerning security interests do not include any specific provisions relating to IPR, with the exception of Section 3 of Chapter 1 of the Finnish Floating Charge Act (634/1984), according to which IPRs are covered by a floating charge; however, despite the special characteristics of IPRs in comparison to most other assets of an entity, no specific provisions in relation to IPRs are included in the said legislation, and therefore they are regarded as an entity's normal property.

Other forms of security interests referred to under Q1 are based on general commercial law principles, although there are some specific provisions regarding their validity e.g. in bankruptcy proceedings.

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

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

yes

Please explain:

A definitive yes/no answer can not be given

QUESTION 3, GENERAL RESPONSE:

As for available security interests, please refer to our answer under Q1.

Pledge over registered patents, trademarks, utility models and registered designs:

In Finland, it is possible to establish a pledge over trademarks, patents, utility models and registered designs. A valid and perfected pledge is created by registering the pledge in the relevant register maintained by the Finnish Patent and Registration Office. For the purposes of such registration, a written pledge agreement or undertaking is required.

Except for the Trademarks Act, the law is silent as to the registration of a pledge right over the mentioned IPRs, and its effects. Registration is thus not a prerequisite for the validity of the pledge *inter partes*, at least in respect of all other of the mentioned IPRs than trademarks.

As for trademarks, the wording of the Trademarks Act seems to suggest that registration is required for the pledge to be valid, as according to its Section 33 of Chapter 5 *no right of pledge shall be valid until such an entry has been made*. However, it has been held in legal literature that despite the express registration requirement, a pledge over trademarks would be valid *inter partes* also without registration. Unfortunately, there is no case law on this point, and therefore the issue remains somewhat open. As registration ensures validity also *ultra partes*, registration would in any event be recommended, regardless of the type of IPR being the subject of the pledge.

Floating charge:

A floating charge (also called a business mortgage or an enterprise mortgage) provides a means for pledging an enterprise's property as security. A floating charge is registered over all fixed, current and liquid assets belonging to the business of a company or other trader recorded in the Finnish Trade Register. As discussed above, it also covers IPRs, provided however that the respective IPRs have not been pledged prior to registering the floating charge.

A floating charge is created by registering it in the Floating Charge Register maintained by the Patent and Registration Office. The floating charge may then be registered as security for the repayment of a specific floating charge promissory note for a given amount. The actual debt relationship is generally evidenced by a separate loan agreement. The security interest is created by pledging the floating charge promissory note, and it is perfected by handing over the notes to the security taker. A registered floating charge prevents the subsequent registration of separate pledges over the assets covered by the floating charge.

A special character of the Finnish floating charge system is that, in the event of bankruptcy, the holders of a floating charge promissory note have priority of payment only up to 50 percent of the net proceeds from the realization of assets covered by the floating charge. The priority among claims secured by different floating charges is determined according to the time of registration of the charges. If execution however occurs other than in bankruptcy, the priority applies to all of the realization proceeds.

Assets covered by a floating charge, may be disposed of in the ordinary course of business. However, if all or a majority of assets subject to a floating charge are disposed of at once, the security taker may, within six months of becoming aware of the disposal, demand payment from the assets so disposed of.

Security interests based on commercial law principles are discussed in more detail under Q3(a) and Q15.

RESPONSE TO 3) a):

In Finland, these kinds of security interests, including the above-mentioned retention of title and equitable mortgage, are generally created by well accepted contractual arrangements. They are

recognized but not explicitly stipulated by law.

In relation to such arrangements, it should however be noted that they may be limited by Section 37 of the Contracts Act[https://www.finlex.fi/fi/laki/kaannokset/1929/en19290228.pdf] (228/1929), stipulating that *a contractual term under which property pledged as security for an obligation is forfeited if the obligation is not discharged shall be void*. According to the respective preparatory works, this restriction is based on that default may take place at any time during the contractual relationship and, consequently, if such forfeiture were allowed, the amount of loss would be randomly dependent on the extent the contractual obligations would or would not have been met. In legal literature, the rationale behind this provision has been found in the prevention of punitive, gratuitous forfeiture of property upon default. The said provision does not automatically render invalid, e.g., all terms providing for transfer of title of the encumbered IPR. However, the security provider must be discharged from his obligation to the extent corresponding to the value of the forfeited property and be compensated for surplus if the value of the property is higher than the security provider's obligation towards the security taker. If the transfer of the title of the encumbered property is dependent on fulfillment of these kind of criteria the terms are not rendered invalid by Section 37 of the Contracts Act. In practice, this requires commercial fair evaluation (e.g. competing bids) of the assets and realization.

Another challenge in respect of these kinds of security interests, which is especially related to equitable mortgage, is that they may not be binding on the security provider’s creditors due to the fact that possession is not transferred as explained below. In bankruptcy proceedings these arrangements may also fall under Section 11 of Chapter 5 of the Bankruptcy Act[http://www.finlex.fi/fi/laki/kaannokset/2004/en20040120.pdf] (120/2004) causing the invalidity of artificial arrangements, or be regarded as unlawful disposal of the insolvent’s assets outside the collective insolvency procedure or a voidable transaction under the Act on Recovery of Assets to a Bankruptcy Estate (758/1991).

As regards equitable mortgage, one of its established characteristics is that possession, which normally belongs to the owner, remains with the security provider, which renders it likely to be held non-binding on the creditors of the security provider. In this regard it should be noted in particular with respect to equitable mortgage over IPRs that IPRs may be “possessed” (through licenses and other transfers of rights) by multiple parties at the same time. Consequently, the security provider may, despite the transfer of ownership and registration thereof, actually have extensive “control” over the encumbered IPR. If the security provider has effective control over and the ability to dispose of the encumbered IPR, the security taker may not be protected in insolvency of the security provider. However, in the absence of relevant case-law, it is uncertain if, and under what circumstances, a too wide license could or would cause even a sale of IPRs that is genuinely intended as a true sale as non-binding.

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:

Pledge over IPR:

In the event of default, a pledge over IPR authorizes the pledgee to liquidate the pledged IPR but not to otherwise dispose of it. The most commonly used process for realization is that under the above-mentioned Section 10 of Chapter 2 of the Finnish Commercial Code, (3/1734), which concerns the enforcement of a pledge over movable property, including pledged IPR. The parties may, however, contract out of most parts of the process.

According to the said Section, enforcement is allowed immediately upon default by the pledger, but realization requires a notification period of at least one month. The manner of realization is typically at

the pledgee's discretion. However, as required by the Commercial Code, the pledgee must act diligently and with due consideration to the pledger's (and possible second lien holders') justified interests when realizing the asset. This means in practice that the asset may not be sold at clearly less than its market value, and thus the security taker should carefully establish the market value, for example, by acquiring a separate fairness opinion on valuation or by way of arranging competitive tenders.

A pledgee may also choose to initiate court proceedings to obtain a judgment establishing its claim. After a final judgment, the pledgee may apply for enforcement by the authorities, in which case the pledge would be realized in accordance with Chapter 5 of the Enforcement Code[https://www.finlex.fi/fi/laki/kaannokset/2007/en20070705.pdf] (705/2007) (public auction or free sale). Regardless of the manner of realization, any proceeds in excess of the creditor's receivable shall be returned to the pledger.

Floating charge:

A floating charge does not entitle the security taker to foreclose on the charged assets solely on the basis of default on the loan. Instead, the security taker needs to apply for a court judgment to enforce a floating charge or, alternatively, file for the security provider's bankruptcy. Floating charge over business assets of an enterprise conveys a priority ranking to the security taker, which applies when the charged assets are sold in a bankruptcy (up to 50 % as stated above), or in accordance with the Enforcement Code[https://www.finlex.fi/fi/laki/kaannokset/2007/en20070705.pdf] . A floating charge does not entitle the security taker to dispose of the business assets/IPR otherwise.

The realization process requires a claim in court proceedings and the actual realization is carried out after a court ruling using one of the realization procedures afforded by the Enforcement Code[https://www.finlex.fi/fi/laki/kaannokset/2007/en20070705.pdf] or, in bankruptcy proceedings, in accordance with the Bankruptcy Act[http://www.finlex.fi/fi/laki/kaannokset/2004/en20040120.pdf] . The most usual realization measures are public tender or "free sale" by the enforcement authorities, and free sale by an appointed third party, which are all well-regulated.

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:

A definitive yes/no answer can not be given

Finnish law does not provide for this kind of security interest, but the parties may freely agree on such arrangement. Finnish law does not expressly regulate the contents of license agreements.

As explained above, under Finnish law the security taker's right to use the encumbered IPR is typically realized through sale upon default of the security provider. Finnish law is scarce on other types of "use" of encumbered IPR than sale upon default. As for realization of proceeds, general principles applicable to real security provide some guidance in this regard. According to these principles, in the absence of an agreement, the security provider has a right to the proceeds of the pledged property. Legal literature would seem to indicate that the same principles apply also to proceeds from pledged IPR. In the realization and enforcement phase, the proceeds however belong to the security taker, unless otherwise agreed.

Since a pledge or a floating charge over IPR does not mean transfer of ownership or similar rights over the IPR, the few provisions concerning the use of pledged property could be relevant mainly in case of

equitable mortgage, if and to the extent deemed applicable also to equitable mortgage. Such applicability could be argued since an equitable mortgage is in many ways paralleled with a pledge.

These provisions include Section 3 of Chapter 10 of the Commercial Code, which prohibits the security taker from using or loaning the collateral without the permission of the security provider. However, according to Section 6 of Chapter 10 of the Commercial Code, the security taker is entitled (subject to liability for damages) to pledge its collateral to a third party, provided that the security taker notifies the security provider or the court and that the value of and terms concerning the collateral are in accordance with the original collateral.

Furthermore, Section 7 of Chapter 5 of the Bankruptcy Act[http://www.finlex.fi/fi/laki/kaannokset/2004/en20040120.pdf] concerns the validity of a repurchase clauses and retention of title clauses in the bankruptcy of the debtor. Here the Section refers to a situation where a party has e.g. sold IPRs to another party subject to a retention of title or a repurchase clause and the transferee becomes bankrupt. The clauses in such case operate as a form of security. However, they would be considered invalid toward the bankruptcy estate, if (i) the right has been agreed upon after the IPR has been transferred; or (ii) if the transferee (subsequently bankrupt party) is entitled to assign the IPR to third parties; or (iii) if the transferee could otherwise dispose of it in a similar manner as its owner.

Therefore, if the parties use e.g. retention of title or a repurchase clauses (return obligation) as a form of securing the payment obligation relation to the IPR sold or another claim, the effectiveness of the arrangement depends on none of the above conditions (i) through (iii) existing. Otherwise, the arrangement would not bind the bankruptcy estate of the purchaser of the IPR and the repurchase or retention of title clauses could not be enforced.

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.

Regarding intellectual property specific security interests, pledge over intellectual property right is the most commonly used security interest, but in overall, floating charges (covering also IPRs) are the most commonly used general securities.

IPRs are not as commonly used as a specific subject-matter of a security interest, as they are as a part of a floating charge. This is presumably at least partly due the realization and valuation of IPRs being more complex than those of most other forms of movable assets. Valuation of IPRs is inherently subjective, and their commercialization requires specific legal and commercial expertise, which has perhaps not been widely available in Finland, with the exception of certain specific sectors and entities. The rather strong emphasis on IPRs as a part of a floating charge, where assets are usually realized as a whole, may be seen as a logical consequence of this.

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:

Pledge over IPR:

There are no stipulations on this matter. As a result such matters are subject to agreement (see Q11 and Q15). I

In the absence of an agreement, there are generally no restrictions on the owner's right to use the pledged IPRs in its business, except for the general loyalty principle and the duty of care in relation to encumbered property. It could follow from these general obligations that for example providing a global royalty-free license to everyone, or executing a perpetual and irrevocable exclusive license to an encumbered IPR, and thus diluting the value of such IPR, would not be allowed. However, as these general legal principles are inherently vague, the parties should explicitly agree on the standard of care and the right to use the pledged IPR.

Floating charge:

Despite of a floating charge, the enterprise is free to transfer and use its assets, as required by regular exchange of assets, necessary renewal of property, or other regular conduct of business, and the security taker's rights to the transferred assets terminate upon the transfer. In relation to a *bona fide* transferee, these rights terminate even if the transfer had not been justified, i.e. it was not allowed under any of the above disposal rights.

If all or most assets of the enterprise are transferred, the floating charge remains in force. However, the floating charge terminates 6 months after the holder of the floating charge became aware of the transfer, and 2 years after the transfer at the latest, unless the security taker claims for the payment of his debt from the pledged assets and notifies the same to the registration authorities.

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

yes

Please explain:

A definitive yes/no answer can not be given

Pledge over IPR:

There are no specific stipulations on the right to transfer pledged IPRs. According to legal literature, the leading view is that pledged assets may be assigned to third parties without the consent of the security taker, and pledge as such would thus not limit the rights of the owner to make disposals of his or her (pledged) property. However, there are also differing views on this matter, and such assignment right could also be limited by the general duty of care.Therefore, the issue should be taken into account in the agreement documentation.

Floating charge:

Please refer to our answer under Q5.

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)?

As for pledged IPRs, it is unclear whether and on what conditions they may be assigned without the consent of the security taker. It is thus recommended to agree on the issue in the security documentation. Assets subject to a floating charge (including IPRs) may be transferred in the normal

course of business, as specified under Q5.

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

yes

Please explain:

A definitive yes/no answer can not be given

As for pledged IPRs, this depends on whether the pledge is duly perfected, i.e. registered. If the pledge is registered (and is therefore binding on third parties), the IPRs will remain encumbered. Otherwise, the pledge could be regarded as non-binding on the transferee, and thus the IPR might not remain encumbered in respect of a *bona fide* third party.

As for floating charges, please refer to our answer under Q5.

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

Other than imposing possible restrictions on the transfer of the pledged IPRs, as specified above, the security takers have no rights before default, including entitlement to damages, or license fees, unless otherwise agreed. Please also refer to our answer under Q11

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

While there are no stipulations on this, it is a generally accepted principle that the decrease of the value of a security is generally on the risk of the security taker, which it has to consider upon providing the loan in the first place. If, however, such decrease is caused by the negligence of the security provider (e.g. in the event the security provider neglects to renew its right as agreed between the parties or fails to defend the right against a clearly unjustified invalidity claim), then the security taker could possibly claim damages for a breach of contract. Also as referred to above, the security provider has a general duty of care towards the security taker regarding the object of the pledge. Thus, even if there is no express contractual clause on this, it could be argued that the security provider has an obligation to handle renewals and ensure that encumbered IPR is defended for example against the above claims.

The security taker has no independent means of defending the IPR being the subject of the 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.

In this case the security lapses simultaneously. As to the creditor's right to claim damages, please refer to our answer under Q9.

11) Can any of these effects of security interests over IPRs before default be modified by contractual provisions between the parties? If so, which effects?

yes

Please explain:

As a general rule it is possible to modify the effects of security interests over IPRs to a certain extent. The general principles of Finnish contract law provide for a wide freedom of contract, and thus the contracting parties are free to decide on what terms they wish to enter into a contract.

Below are some examples on how the effects described under Q5 to Q10 may be modified.

- The parties may include contractual clauses regarding entitlement to damages, for example, in case the encumbered IPR is infringed. For example, it can be agreed that the compensation for infringement of the encumbered IPR is surrogate to the security.
- As a general rule license fees belong to the security provider. The parties may however agree that the license fees or parts thereof belong to the security taker starting from the creation of the secured indebtedness, and they may be paid e.g. to a separate pledged bank account or used for amortization of the debt.
- Regarding maintenance and defense of encumbered IPR, the parties may agree that the security provider is obliged to pay annual maintenance fees and take actions to defense its right to the encumbered IPR in a case of invalidity claims. The parties may further agree on a contract clause that gives the security taker a right to demand the owner of the IPR to bring an action for infringement and claim damages resulting from an infringement. However, it is not possible to grant a person not entitled to bring proceedings such right by contract.
- The parties may also agree on contractual clauses regarding expiry or revocation of the underlying IPR. For instance, it is possible to impose an obligation on the security provider to provide new security or right to terminate or accelerate the debt agreement with immediate effect if the underlying IPR expires or is revoked. The parties are not allowed to agree on a longer term for the security than the validity period of the IPR.

The freedom of contract has however its limits. For example, according to Section 36 of the Contracts Act, if a contract term is unfair or its application would lead to an unfair result the contract term may be adjusted or set aside. This provision is however rarely applied to business-to-business contracts.

Furthermore, there are certain restrictions on the freedom of contract aiming to protect creditors of the security provider. These are based on general principles of law and insolvency law, and are relevant especially, if the security provider assigns encumbered IPRs to third parties.

According to Section 3 of Chapter 5 of the Bankruptcy Act[http://www.finlex.fi/en/laki/kaannokset/2004/en20040120.pdf] , unless contained in a valid retention of title or repurchase clause, a condition restricting the right of the security provider (bankrupt debtor) to assign movable property to a third party is not binding on the bankruptcy estate. Further, Section 5 of the Act on Recovery of Assets to a Bankruptcy Estate (758/1991), provides that any action taken individually or together with other actions, within the general recovery period of five years, before filing for insolvency proceedings that favors a creditor in an inappropriate manner to the detriment of the other creditors, removes assets from the reach of the creditors or increases debt to the detriment of creditors will be set aside. For setting aside an action, it is required that a security provider was insolvent when undertaking the action or became insolvent as a result thereof. It is further required that the counterparty knew or ought to have known, of the security provider's insolvency or significance of the action to the financial circumstances of the security provider and of the factors rendering the arrangement improper by its nature.

Protection of third parties may also impose certain limits on transfers of encumbered IPRs by the security provider. For example, Section 9 of the Business Mortgage Act provides that within the scope of regular business operations, the trader may freely sell mortgaged objects. It is possible to modify this division of risk between the security provider and the security taker by contractual clauses (e.g. by allowing the security provider to trade mortgaged objects beyond the scope of regular business operations). However, it is uncertain and problematic how the protection of third parties is ensured if the right to trade mortgaged objects is agreed to be narrower than regular business operations and the security provider exceeds its competence.

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:

Finnish national legislation does not provide for specific conflicts of laws rules as to the availability and effect of security interests over IPRs but leaves these issues to be determined by general principles of conflict of laws. However, Regulation 593/2008 of the European Parliament and of the Council on the Law Applicable to Contractual Obligations (Rome I[http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:177:0006:0016:en:PDF]) and Council regulation 1346/2000[http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2000:160:0001:0018:en:PDF] on insolvency proceedings are applicable in Finland and regulate the choice of law on the availability and effect of security interests.

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.

In Finnish legal practice, the applicable law to movable (excluding e.g. receivables) and immovable property has traditionally been considered the *lex rei sitae*, i.e. the legislation of the place of location of the property. In case of IPR, such *lex rei sitae* would be the country of registration.

On the creation of a security interest over foreign IPR, the parties are free to choose the applicable law in accordance with Rome I[http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:177:0006:0016:en:PDF] , and private international law. If no choice of law has been agreed, the legislation of the country of registration generally applies. Also, regardless of the chosen legislation, the requirements of the legislation of the country of registration of the IPR apply to the perfection of the security interest. Due to differing choice of law provisions, cross-border IPR usage may lead to difficult legal scenarios.

The effect of the security interest is determined by the national law of the country of registration. Within the EU,Article 5 of the Regulation[http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2000:160:0001:0018:en:PDF] on Insolvency Proceedings regulates further that when a security is located in the territory of another Member State, the local opening of the insolvency proceedings cannot affect the rights in rem relating to such security. Therefore, a security interest registered in another Member State than the one where the insolvency proceedings are initiated, may only be realized in accordance with the national law of the country of registration. However, according the referred Regulation, the recovery of assets to the bankruptcy estate is governed by the law of the state of the opening of proceedings.

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

yes

Please explain:

A choice of law provision of a security interest agreement may overrule the applicable law to certain effect *inter partes*. However, validity *ultra partes* may be affected by Paragraph 3 of Article 3 of Rome I[http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2008:177:0006:0016:en:PDF] 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 shall not prejudice the*

application of provisions of the law of that other country which cannot be derogated from by agreement. The referred article is likely to become applicable for example in the realization of a security interest, meaning that the mandatory requirements of the national legislation of the country of registration may apply instead of the chosen law.

Additional question

15) Regardless of your Group's current law relating to security interests over IPRs, is it possible to create a solely contractual regime for security interests over IPRs (i.e. beside the types of security interests defined by law) that is enforceable between the contracting parties?

yes

Please explain:

Yes, based on the wide freedom of contract applied in Finland it is possible to create a solely contractual regime for security interests over IPRs that is enforceable between the contracting parties. However, restrictions apply to such agreements, and security interests established solely contractually may not provide protection against third parties, including the creditors of the security provider e.g. in bankruptcy proceedings. The answers to Q3(a) and 11 above discuss these matters in more detail.

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:

It is our view that our current law regarding security interests is generally sufficiently clear and predictable, which is further ensured by an extensive body of case law interpreting such law.

However, some issues in particular arising from the specific nature of IPRs could be clarified further, and, in the absence thereof, are recommended to be taken into account in the relevant agreement documentation. For example, Finnish law does not provide full certainty on who is entitled to the proceeds of pledged IPRs. Also, Finnish law does not clearly restrict the rights of the owner of the encumbered IPR, even if their actions, such as granting an exclusive, worldwide, perpetual and irrevocable license to the encumbered IPR, could be detrimental to the security taker. Also it would be beneficial if the applicability of the various types of security interest, as discussed above, would be confirmed on legislative level and the rights and obligations of the security provider and the security taker would be specified accordingly (e.g., with respect to maintenance, right to exploit, etc.).

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:

With reference to our answers under Q9 and Q16, we consider that there are certain situations, in which the rights of a security taker should be extended and, consequently, the rights of a security provider should be limited. In addition to those mentioned, it is our view that the powers of a security provider to control the company in a corporate restructuring are too extensive. Also here it would be our recommendation to have 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. E.g. in a statutory corporate restructuring, the creditor (security taker) may lose (write-off) its claim, if the IPR is not valued correctly, as the value of the IPR determines the priority of the votes of the creditor. In addition, even in case of a write-off, the owners may not be obligated to lose their ownership of shares resulting in "reversal of priorities" between the secured creditor and the owner. This would be the case if e.g., a pledged IPR were incorrectly evaluated and the respective creditor disagreed on the adoption of the proposed restructuring plan with the other secured creditors. Due to the fact that IPR valuations are often very subjective, there is an increased risk of incorrect valuation in comparison to many other forms of security.

We are also of the view that a floating charge should have a priority to 100 percent of the proceeds of a company's assets also in bankruptcy, instead of the current 50 percent, as this would increase the value of a floating charge and thus presumably enable larger loans on less restrictive terms. Also the realization process of floating charges is rather time-consuming and burdensome and could be eased.

Although the position of secured creditors is strong under the Finnish insolvency law, the stipulations on the valuation of encumbered property are not established. It is thus not certain whether the valuation should be based on e.g. going concern, liquidation value or income or similar value (in Finnish *tuottoarvo*). For example, in case of a floating charge, the administrator determines the value of the encumbered property and precedence in the distribution of assets, and, in the absence of established principles, the result of such valuation could be quite random, especially in relation to IPRs the determination of value of which would in most cases require profound expertise.

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:

Please refer to our answer under Q17(a).

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:

There are several aspects that could be improved. In summary, these include in our view at least the following, which have been partly mentioned also above:

- There should be more provisions/case law on IPR valuations;
- A floating charge should have priority to 100 percent of the proceeds of the company's assets, and the system should be simplified in general;
- A security provider's rights should be limited in certain situation as mentioned above;
- Pre-package administration could be facilitated to ensure reservation of the value of the encumbered IPRs, if needed (e.g., realization could be subject to a simplified procedure like in the UK or US if necessary to reserve value and valuation);
- A possibility to establish a separate pledge over an IPR in addition to an existing floating charge

covering also the IPR would facilitate the use of IPRs as security, and should be enabled. The current regime may not fully support exploiting the security potential of IPRs as these rights become part of the floating charge without any separate consideration as to their independent value as a security.

- While, it is likely that the current legislation already limits the rights of the security provider to assign or freely limit or waive the IPR subject to the security without contribution of the security taker, but this matter is currently not absolutely clear. It should in our view be stipulated clearly in law that the security taker is at least to be notified in these situations as well as where the encumbered IPR is deregistered or expired due to non-payment of the applicable maintenance fees.

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:

GENERAL COMMENT TO QUESTION 19:

We consider that harmonization could be desirable but only if it leads to a clear and widely accepted result. In this respect it is further our view that harmonization needs are more in the field of insolvency legislation than IPR legislation, and therefore UNCITRAL model insolvency law and similar international measures intended for insolvency could be needed.

To the extent harmonization takes place, we see that it would be beneficial if wereregistration of a pledge over IPR was available in an identical form and subject to the same prerequisites. Also, at least an EU wide register for pledged IPRs could facilitate the use of IPR as security.

Answer to 20 a)

No, not beyond the provisions proposed above. It is our view that the current model where they are subject to the general provisions is desired. Establishing new forms of security specific only to IPRs would more likely create uncertainty than provide clarity.

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

yes

Please explain:

Yes. These already exist and have been discussed above.

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

As stated above, at least pledge and floating charge should be available in all countries. Also, it would be practical to see all securities over IPRs in the same register.

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:

No, the law should be applied in the same manner in case of all IPRs to avoid confusion and unpredictability.

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:

Yes. As discussed above, we consider it important the rights of the security provider and security taker are balanced independent of the type of the security interest. E.g., in scenarios where the security provider holds control over the encumbered IPR,As discussed above, we consider that the security provider should be prevented from taking measures that would lead to the security interest being fundamentally different from what was agreed to, by way of licensing or otherwise disposing of it, without the consent 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 able to assign encumbered IPRs to third parties without the consent of the security taker in a manner that it dilutes the value of the security or otherwise is detrimental to the rights of the security taker. However, as the Finnish group promotes the transactionability of IPRs, we would be willing to accept assignment also without the consent of the security taker provided that the assignee assumes all obligations of the security provider in relation to the security taker, and is in an equal financial and business position as the security provider, in a manner that such assignment would not affect the interest of the security taker in any way. Otherwise, it is our view that it is essential that the ownership of the security and the contract structure remain unchanged.

We also consider that it should not be possible to refuse such consent without a justified reason. In other words, the security taker should not be able to interfere with the business of the security provider more than absolutely necessary by for example preventing assignments based on sound business reasons and commercial use of the assets.

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

Right to damages and injunctions against third party infringers could be considered as an option, in order to provide the security taker a means to prevent the dilution of the value of the security, if needed, and, most often, this would also be in the interest of the security provider. However, we acknowledge the problems related to such right of the security taker especially in the global context, as the liability for the litigation costs could be a heavy one, and it could be hard to stipulate fairly and clearly enough, which one of the parties should pay the legal costs in each case. Moreover, enforcement results often in invalidity claims which are undesirable from the perspective of the security provider. Also, as litigation may lead to many other negative effects, it is not necessarily always in the interest of the security provider to start litigation despite a possible infringement of its IPR, and thus giving the power to decide on this to the security taker, could be problematic. Due to these and other similar problems, we are also willing to accept the current regime, where this matter is left to the parties' freedom of contract. In any event, the right of the security taker to enforce should be subject to the security provider's consent.

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

yes

Please explain:

In our view, the security provider should be responsible for the maintenance, as it has the best means to exercise control over this issue. The parties should however be able to agree that the security taker assumes such liability, if, for instance, the security taker is in a better financial standing.

Stipulating who should be responsible for defence of the IPR requires almost unavoidably that also the required defensive actions are defined, which may prove to be challenging. Therefore, we would leave this matter to be regulated by the general duty of care and decided by the court, in other words, as it is. However, as expiry of the encumbered IPR would be detrimental to the security taker, the obligation to maintain the security in force could be stipulated by law.

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)?

It is our view, that in the event the IPR is about to be expired or revoked, the security taker should be notified. This would be relatively easy to execute, as security interest over IPRs are rights perfected by registration, and the notification could (and should) be made by the authorities. It is debatable whether the security taker should then have a right to choose to maintain the IPR in force by paying the appropriate registration fees or whether receiving the notification should only enable other measures. Therefore, we would leave this issue subject to agreement.

In addition, we consider that it could be considered whether there should be a right to restore IPR after expiration or revocation in certain situations by paying a separate additional compensation. This could be used in a manner that security right over IPR re-enters into force if, e.g., the security provider has failed to pay maintenance fees.

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

yes

Please explain:

Yes, but *ipso jure* clauses, which lead to forfeiture of assets of the debtor in insolvency proceedings,

and other than the accepted forms of security should not be allowed

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?

In our opinion the current system as to the availability and effects of the security interests as described above is sufficient

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

yes

Please explain:

Yes. For example, if a specific IPR is registered in over 30 countries, it is not practically possible to perform legal checks in all of these jurisdictions separately. At the same time IPRs are currently rights, which cannot be used as a security without an invalidity risk unless conducting legal checks on a country-by-country basis. However, if the choice of law rules overruled the applicable law without any limitations, forum shopping would definitely increase, unless different jurisdictions were harmonized at the same time.

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.

We consider that, in the event of bankruptcy, also the recovery of assets to the bankruptcy estate should follow *lex rei sitae* or chosen forum and not the laws of the insolvency jurisdiction to avoid obligatory application of the laws of separate countries and, consequently, confusion. One of the reasons for this view is that e.g. avoidance of transactions rules of certain jurisdictions (e.g. Finland) are stricter than in other jurisdictions (e.g. England). This leads to *ex post* evaluation of otherwise valid security interests.

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

Rather than regulating IPRs specifically, in the field of insolvency laws more work should be done to ensure identical treatment of different asset classes in cross-border situations

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

Summary

Finnish written law recognizes two forms of security interests over IPRs, namely a pledge over IPR and a floating charge covering all assets of an enterprise, including its IPR assets. In addition to the security interests stipulated in law, there are also other forms of security interests that are mainly based on

contractual arrangements, but are rarely used and thus addressed only to a limited extent in the report.

While Finnish law recognizes the above security interests, it does not specifically stipulate them from the IPR perspective, but general rules apply to them as to other assets of a company provided as security. This leads to some uncertainty, since the general rules fail to take into consideration the special characteristics of IPR when provided as security (in comparison to tangible assets). As IPRs cannot be physically transferred to the security taker when provided as security, their owner remains more free to control them than tangible assets, even if provided as security.

Security interests over IPRs generally limit quite little the security provider’s rights to use and control the IPR provided as security, unless otherwise agreed. Correspondingly, security takers’ rights are quite strictly limited to the sale of the encumbered IPRs in the event of default. In the view of the Group, the rights of the security providers could be considered to be limited for the benefit of the security taker, for example, by limiting extreme actions by the security provider, such as extensive exclusive licensing of encumbered IPRs without the consent of the security taker.